S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

FQ4 2012 Earnings Call Transcripts

Friday, February 08, 2013 3:00 PM GMT

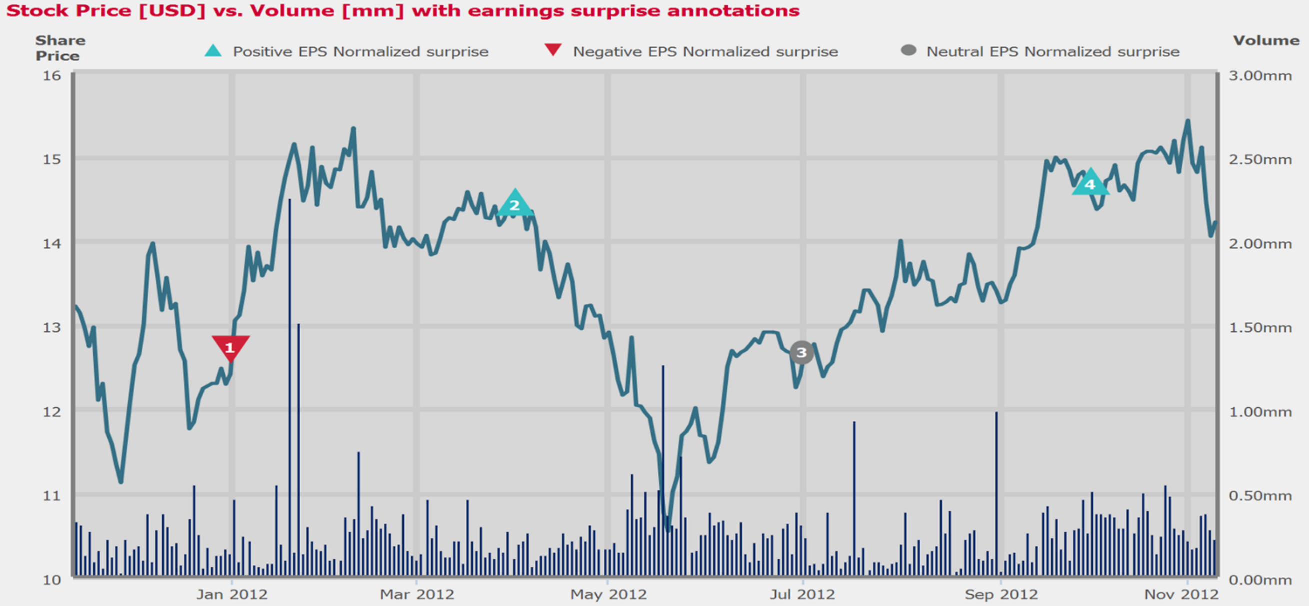
S&P Capital IQ Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.05	1.69	▲60.95	1.13	3.15	3.82
Revenue (mm)	889.29	1159.22	▲30.35	986.86	2676.75	2859.96

Currency: USD

Consensus as of Feb-08-2013 1:38 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	1.42	0.80	▼1 (43.66 %)
FQ1 2012	0.79	1.10	▲2 39.24 %
FQ2 2012	(0.11)	0.05	NM
FQ3 2012	0.74	0.98	▲3 32.43 %

Call Participants

EXECUTIVES

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Head of Corporate Communications

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Former Senior Advisor

Martin Kelly
Chief Financial Officer

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2012 Fourth Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Martin Kelly, Chief Financial Officer. Earlier this morning, we reported non-GAAP after-tax economic net income of $1.69 per share for the fourth quarter ended December 31, 2012, compared to $0.80 per share for the fourth quarter of 2011. For the full year of 2012, we reported non-GAAP after-tax ENI of $3.82 per share compared to an economic net loss of $0.86 per share for the full year 2011. For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $172 million for the fourth quarter ended December 31, 2012, compared to $11 million for the fourth quarter of 2011. For the full year 2012, we reported net income attributable to Apollo Global Management of $311 million compared to a net loss of $469 million for the full year 2011. We declared a cash distribution of $1.05 per share for the fourth quarter of 2012, which is the largest quarterly cash distribution Apollo has declared since becoming a public company in early 2011. Later on the call, we'll provide additional detail on the composition of this quarter's significant cash distribution.

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 fourth 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 a copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow up with me or Patrick Parmentier after the 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 good morning, everyone. The fourth quarter capped an extraordinary year for Apollo, and our financial results for 2012 reflect the strength of our globally diversified investment platform that we continue to grow. We achieved numerous accomplishments throughout the year, and I'd like to highlight a few.

With a strong year of fund-raising with $9.7 billion of new capital raised, we returned $10.9 billion of capital and realized profits for our limited partners in 2012, $4.9 billion of which was in the fourth quarter alone. Our AUM increased 51% since the end of 2011 and is now over $113 billion, after the $10.9 billion of distributions to our limited partners.

Five portfolio companies of the private equity funds that we manage completed initial public offerings within the last year, further advancing our funds towards future realizations. We commenced our fund-raising for Fund VIII, our next flagship private equity fund. We successfully integrated the Stone Tower and Gulf Stream businesses within our credit segment, adding more than $21 billion of AUM to further diversify our investment platform and grow the profitability of our Management Business. And importantly to our shareholders, we declared a significant cash distribution for the fourth quarter, bringing the total cash distributions declared in 2012 to $1.94 per share.

These accomplishments were made while the broader markets faced a great deal of uncertainty. The year began with the inconclusive economic data and ongoing secular headwinds in Europe, leading us to the November elections and ensuing U.S. policy decisions on the so-called fiscal cliff. Against this backdrop, we are able to execute on the broader strategy we laid out at the time of our 2011 IPO, building a best-in-class global diversified alternative investment platform while delivering strong investment returns and cash distributions.

Today, I'd like to briefly walk everyone through our views on the current market and discuss how our businesses are performing. Starting with the markets, we continue to operate in a historically low interest rate environment. Credit spreads continue to tighten although they are not at all-time tights. Central banks are continuing to use nontraditional monetary actions to spur economic growth and reduce unemployment. We continue to believe that these technical conditions are driving markets ahead of fundamentals although the fundamentals and confidence have improved.

Putting all of these factors together, the capital markets window is open for monetizations that we continue to capitalize on, playing to the strengths of our flexible business model. During the fourth quarter, we returned just under $5 billion of capital to our fund investors and in the process earned $600 million of realized carry, which was a primary driver of our $1.05 quarterly distribution.

Turning now to Fund VI and Fund VII, our 2 largest private equity funds that we manage. Both funds had a significant positive impact on our 2012 results even though they were deployed in very different market environments. Fund VI is our $10 billion private equity fund that was largely deployed during the peak of the economic cycle in 2006 and 2007. Despite its challenging vintage for private equity, Fund VI has an annual net IRR of 9% based on the market values as of December 31. During the fourth quarter, the previously announced sale of Smart & Final was completed, and a number of Fund VI portfolio companies have gone public as market windows have opened within the last year. These portfolio companies include Caesars, Rexnord, Berry, Realogy and Norwegian Cruise Lines, bringing Fund VI closer to future realizations.

Fund VII is our largest private equity fund that closed on just under $15 billion of capital committed in 2008 when the financial crisis began. Our investment teams actively invested Fund VII's capital throughout the financial crisis. During the fourth quarter, Fund VII successfully sold a portion of its shares in LyondellBasell and Charter Communications, which had a significant impact on our quarterly distribution. With an inception to-date net IRR of 26% and over $12 billion of investments remaining on hand, we believe that Fund VII is well positioned for future monetizations.

In addition to the realization activity I just described, dialogue with strategic buyers also continues to take place. Metals USA, for example, is a Fund V portfolio company that recently agreed to be acquired by a strategic buyer for an enterprise value of approximately $1.2 billion. This transaction is subject to customary closing conditions and regulatory approvals and is expected to close in the second quarter.

During 2012, our funds deployed private equity capital at an average pace of $800 million per quarter, which is in line with our historical investment pace of $3 billion to $4 billion per year. We continue to find attractive investment opportunities that meet our value-oriented criteria within the core industries we focus on. For example, the funds we manage recently completed or announced several deals, including Talos' energy acquisition of Energy Resource Technology, as well as other transactions that were announced in the last few months.

As you know, our strategy for growing shareholder value extends well beyond private equity, and we continue to expand and diversify our credit and real estate capabilities. Our credit segment now has $64 billion of total AUM, and our real estate segment has just under $9 billion. In addition to the integration of the Stone Tower and Gulf Stream acquisitions, we continue to see organic growth in a number of areas, including nonperforming loans, CLOs and our publicly traded residential and mortgage -- commercial mortgage REITs. We believe credit and real estate will continue to be large drivers of growth at Apollo, where we see compelling risk reward opportunities in areas that are less liquid and more complex.

Now I'd like to make a few comments about Athene, the insurance company whose business centers primarily around issuing and reinsuring fixed and equity-indexed annuities. Athene has continued to grow rapidly. And over the last several months, it has completed or announced several important transactions. First, Athene completed the acquisition of Presidential Life Insurance, bringing Athene's total AUM to $15.8 billion at the end of 2012. Second, as you may remember from our last earnings call, AAA, the publicly traded strategic investment vehicle that we manage, completed a significant corporate transaction with Athene in October. Finally, in December, Athene announced the pending acquisition of Aviva's U.S. annuity and life insurance operations. This transaction, which is subject to customary closing conditions and regulatory approvals, is expected to add significant scale to Athene's existing business. During his prepared remarks, Martin will cover additional details regarding these transactions.

Now turning to fund raise -- fund-raising. We raised $1.6 billion of new capital during the fourth quarter of 2012, bringing the full year total new capital raised to just under $10 billion. Our second European nonperforming loan fund, EPF II, held its final close in December, finishing with more than $3.6 billion of committed capital with more than $900 million raised during the fourth quarter alone. Our natural resources fund also held its final closing in December, with an additional $400 million that was raised during the fourth quarter and bringing its total committed capital to $1.3 billion.

Looking back on 2012, we executed against our strategic plan, and our financial results completed an outstanding year for Apollo. Going forward, we believe that our integrated investment platform and value-oriented approach leave us well positioned for continued growth.

I'll now turn things over to Martin.

Martin Kelly
Chief Financial Officer

Thanks, Marc, and good morning again, everyone. Today, I'll briefly touch on a few details around the fourth quarter and 2012 financial results before we move on to your questions.

Starting with our cash distribution, the $1.05 per share that was declared for the fourth quarter includes 3 components that we've talked about on prior earnings calls, as well as a few additional items that I'll describe. The first component includes our regular distribution of $0.07, and the second component represents approximately $0.08 from the recurring portion of our realized carry that stems from interest and dividend income earned by the funds that we manage. We generally associate the third component of our distribution with onetime realization events from the dispositions of equity and debt investments by our funds, as well as nonrecurring special dividends that our funds receive from their portfolio companies.

I'm pleased to note that during the fourth quarter of 2012, there was approximately $0.90 per unit associated with the third component of our quarterly distribution, $0.80 of which was driven by realization of venching our [ph] funds, including secondary share sales of LyondellBasell and Charter Communications, special dividends from 3 of our funds' portfolio company investments, net realized carry from Fund VI's sale of Smart & Final, as well as the sale of holdings in some of our credit funds.

In addition to the $0.80 of realization activity I just described, the third component of our distribution also includes realization activity related to AGM's balance sheet investments in the funds we manage. Since this is the first time our distribution includes meaningful realizations from these balance sheet investments, I wanted to provide you with a little more color on this component.

Historically, our balance sheet fund investments have been a source of capital for our business. And since going public in early 2011, we have largely reinvested distributions from these investments back into our balance sheet. During 2012, there was a greater amount of cash received from our balance sheet fund investments relative to what we contributed, and we've elected to pay out this excess cash to our shareholders. Since cash flows to and from our balance sheet fund investments are largely dependent upon market conditions and fund-raising activity, it's difficult to establish a forward-looking estimate on any excess amounts that can be distributed to our shareholders in future quarters. However, our policy remains the same in that we intend to distribute substantially all of the net after-tax cash flow in excess of amounts determined necessary or appropriate to run and grow the business.

Turning now to the performance of our private equity funds, Fund VII and Fund VI appreciated by approximately 8% and 11%, respectively, during the fourth quarter of 2012, both outperforming the 1% decline in the S&P 500 for the same period. Funds VI and VII both benefited from appreciation in Lyondell's share price. And the strong performance of Realogy following its IPO in October also had a significant impact on Fund VI's valuation as of the end of the fourth quarter.

We'd like to provide you with some helpful data points for certain of our larger public holdings as of the end of 2012. Starting with Lyondell, the funds we manage continue to hold a combined 113 million shares, including 70 million shares in Fund VII, 24 million shares in COF I and 13 million shares in Fund VI. For Charter Communications, there are 16 million shares in Fund VII and 7 million shares in Fund VI. For Berry Plastics, there are 37 million shares in Fund VI and 22 million shares in Fund V. For Realogy, as we have disclosed previously, there are approximately 15 million shares held in Fund VI. Finally, Norwegian Cruise Lines went public last month, and Fund VI holds 59 million shares.

Regarding portfolio company performance, the aggregate revenues from the Fund VI and Fund VII portfolio companies were down slightly by an estimated 2% during 2012 compared to 2011, while EBITDA was slightly higher by an estimated 1% over the same time period. These results are largely unchanged from the prior quarter, when aggregate revenues were also slightly down by an estimated 1% for the trailing 12 months ended September 2012 compared to the same period of 2011, and EBITDA was down slightly by an estimated 2% over the same time period.

Moving on, there are a few items I'd like to briefly highlight with respect to our Management Business results. For the full year 2012, Apollo Management Business earned $223 million of ENI, which was significantly greater than the $76 million of ENI we earned in 2011. We believe this performance demonstrates the ability to scale our existing investment platform with additional operating leverage to the upside from incremental transaction and other onetime fees.

During 2012, we have seen a steady growth in our management fee revenues from new funds that were raised and the strategic acquisitions in our credit segment. There was a $15 million onetime catch-up of management fees during the fourth quarter, which was associated with the final closings of our natural resources fund and EPF II. Also during the fourth quarter, we received advisory and transaction fees in connection with the IPOs of Fund VI portfolio companies.

Turning to expenses, there was a pickup in non-compensation expenses in the fourth quarter, which included a ramp-up in placement fees associated with the final closings of the natural resource fund and EPF II. Compensation expense for the Management Business was $344 million for the year ended December 31, 2012, an increase of 8% compared to the $319 million that was recorded for 2011. These amounts exclude the impact from the Apollo incentive pool compensation plan, whereby certain discretionary bonuses are driven in part by realized carry and are therefore recorded as realized profit-sharing expense in the Incentive Business. There were $62 million of incentive pool compensation accrued during 2012 compared to $35 million for 2011. Our total realized profit-sharing expense as a percentage of total realized carry was 44% in 2012 compared to 48% in 2011. The decrease was predominately impacted by mix as funds with lower profit-sharing percentages generated a greater amount of realized carry in 2012 compared to 2011.

Incentive Business revenues also increased significantly during the year. There was $2.1 billion of total carry and incentive fee revenues in 2012 compared to a net reversal of total carry and incentive fee revenues of $442 million in 2011. Fund VII continued to be the largest contributor of total carry, with $908 million earned in 2012, while Fund VI was also a significant contributor, with $640 million of total carry earned in 2012. Due to Fund VI's favorable investment performance, there was a corresponding 80-20 catch-up of unrealized carry revenue during the fourth quarter. And the related $170 million general partner obligation that we discussed last quarter was fully reversed. As of December 31, 2012, we estimate that the next $500 million of investment appreciation in Fund VI will result in our earning unrealized carry on an 80-20 basis before we catch up to our 20% share of total profits in Fund VI.

Finally, as Marc alluded to earlier on the call, I'd like to provide some additional information on Athene in view of the Presidential and AAA transactions that were completed during the fourth quarter, as well as the Aviva transaction that was announced in December. At the end of 2012, there was $15.8 billion of total AUM related to the Athene life reinsurance platform, $3.7 billion of which was added by Athene's acquisition of Presidential Life. Approximately $5.2 billion of the $15.8 billion total AUM is now managed directly by Apollo across our funds. For the remaining $10.6 billion, we continue to provide asset allocation and related services. We have historically derived fees for our services in 3 principal forms: asset management fees across all of Athene's assets; management fees for those assets directly managed by Apollo funds; and advisory fees that Apollo earns from Athene. Subsequent to the transaction between AAA and Athene, we continue to derive asset management fees, principally in cash. And now we will start to receive equity interest in Athene in connection with the advisory services provided to Athene. Looking ahead, we expect the amount of these fees to scale with the growth of Athene's AUM.

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

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Roger Freeman of Barclays.

Roger Anthony Freeman
Barclays PLC, Research Division

Just thinking through the sort of realizations within the private equity portfolios and also new IPOs. You look at the percentage of your total portfolio that's based on market valuations, it's kind of been flattish around 60% -- I think 64% last couple quarters. Is that -- is it just a function of the newly public companies kind of replacing what's going out the door? Or is there any change sort of in the back end of the mix of private companies that are now getting value off of public comps or comparable transactions or something like that?

Gary M. Stein
Head of Corporate Communications

I would say generally, I think what you described is correct. We've obviously had realizations with some of those public holdings. And to your point, some of those realizations of those public holdings have been replaced by new public holdings. There hasn't been any fundamental change in methodology here, and I think it's fairly consistent with approximately 2/3 of the private equity fair value being determined by public comps' marks. And I think again, broadly, the overall portfolio with around 3/4 of their value being determined by those public marks and/or broker quotes.

Roger Anthony Freeman
Barclays PLC, Research Division

Okay. And I guess also the U.S. performing credit bucket, you had a lot of realizations in the fourth quarter. Just wondering if that's an indication of a view that, that sector's kind of topping out.

Marc Adam Spilker
Former Senior Advisor

Well, there are certain markets that seem more fully priced, as you know, and some of those businesses are positioned in Lyondell as well. And so that's a big piece of it.

Roger Anthony Freeman
Barclays PLC, Research Division

Okay. And then let's see on -- any update on sort of the Texas Teachers' mandate? I'm not sure if this is related directly to them, but I think there are $2.5 billion of commitments to the platform that have yet to be deployed. Is that the Texas Teachers fees? And I'd look and say you came down a couple hundred million from last quarter.

Marc Adam Spilker
Former Senior Advisor

Yes, I would say 2 things. Generally, that is related to committed but unallocated managed accounts, and the largest one being TRS. And what we said I think in the first couple of calls after we officially received the mandate was that we thought that we would invest the majority of the money over a 2- or 3-year period. And so we're probably not going to report on what we do on that. But I would say it's reasonable to assume that we're on the pace that we thought we'd be on.

Operator

Our next question comes from the line of Howard Chen, Crédit Suisse.

Howard Chen

Crédit Suisse AG, Research Division

Marc, given your commentary and the fact that net accrued performance fees continue to trend higher, level 1 assets are increasing, really everything is pointing to you being a better seller in the market. But just given we haven't gone through a realization cycle with Apollo as a public company, I was curious if there's any way you can like qualitatively frame the pace of monetization if it holds in. I guess maybe asked another way, are you garnering any sense of market fatigue relating to some of your more significant investments?

Marc Adam Spilker
Former Senior Advisor

I think -- look, I think it is a good question, but it's really hard to tell. And so I just go back to the way we believe our platform works, which is that we can be both selling positions and deploying capital at the same time. And if you go back over the last couple of quarters, we keep on saying market dependent and subject to windows, but given the nature of our portfolio, when it was invested and how these companies are doing, that we believe that we were ripe for monetizations. And as long as the window stays open, it feels like a good time for us to monetize. At the same time, the investing environment, while it's getting tougher, is still interesting in the less liquid, more complex side of the market. So we're going to continue to pivot day to day between monetization and investing. And one of the things about 2012 that we're really proud of is that we returned just under $11 billion of capital, and the overall franchise grew. And one of the things that you know which is true about opportunity funds, you raise them, you invest them, you return them, and then you go raise them again. And this balance between returning and raising is always the big question. And I think in 2012, what we showed is that we can return a lot of capital and raise a lot of capital outside the flagship private equity fund, which is something that's coming in Fund VIII. And I think that, that really highlights the kind of robust health of our business even in this kind of market.

Howard Chen
Crédit Suisse AG, Research Division

Great. Marc, that's all really helpful. And you highlighted in your commentary conversations with strategic buyers taking place. I don't want to overrate what you're saying, but is that -- how much of an incremental positive is that versus say kind of 6, 9 months ago for you and all of what you own?

Marc Adam Spilker
Former Senior Advisor

Yes, I would -- so I said it there. And I also -- in the way we look at the sort of the interaction between fundamentals and technicals, I also referenced that confidence is generally improving, and we can see that in the strategic dialogues. So I'm with you as I don't want to over -- make more of it than it is because you just never know. But certainly, we're in a market where the risk on trade is more there than it's been, and I believe that that's going to loosen up people to want to do things that maybe has been in the backlog. And so it's hard to say where things will get because you know you can have lots of strategic dialogues that go nowhere, but it feels encouraging.

Howard Chen
Crédit Suisse AG, Research Division

Great. And just final one for me. The diversification and the efforts, and certainly one of those efforts for the firm has been real estate. Just hoping you can just kind of dig a little deeper and give us a broad update on all of what you're doing within that asset class.

Marc Adam Spilker
Former Senior Advisor

Thanks for the question, Howard. So in real estate, we continue to think of real estate in 2 pieces: One is the private -- the real estate private equity side; and the other is the debt side. We're working a lot to continue to integrate the real estate debt side with our overall credit business. And while in the big scale of things, the numbers are still small, they're growing, and that, we think, has plenty of opportunity for growth. And the opportunity side of the business, and I said this on last quarter's call, that will grow with opportunities. And we're a value-oriented investor. And we have launched, as you know, last year North America Real Estate One, we're investing the capital, we're finding things that we think are interesting, and that business will scale relative to the size of the opportunities. The thing that you can't see from the segment reporting is how well real estate group and product has become integrated with the firm. And we talk a lot about our integrated platform. And we've made a lot of progress over the last year in terms of integrating real estate. And when you look at some of the opportunities that we are seeing in Europe in particular under the broader scene, that over the last kind of couple of quarters, it seems like in certain places, real estate is emerging as a little bit more of an opportunity than maybe we would have thought a year ago in Europe. And having a team and having that integrated with our European platform is something that we think will benefit us over time.

Operator

Our next question comes from Bill Katz of Citigroup.

William R Katz
Citigroup Inc, Research Division

Just on the dynamics between sort of what you highlighted in terms of some of the bigger investments you have and possibly for further exit, it sounds like. How do you think about the comp-to-revenue ratio on that? Would you expect that comp realization to continue to trend lower or are we at, sort of at a bottom from that ratio?

Marc Adam Spilker
Former Senior Advisor

I would say it's hard to predict because it all depends on which fund it comes from. And so if you look at what Martin said in his comments, that we do have a different profit-sharing arrangement in Fund VI versus Fund VII. But what we've continued to say overall that in the 40% to 45% typically is what I think you could expect from the Incentive company.

William R Katz
Citigroup Inc, Research Division

Okay, it's helpful. And then you spent obviously a lot of time on Athene. How do you think about growth in that business? It's I think about $15 billion or so as it stands right now. Is this a multiple of growth? How do you think about that, so we can maybe model it more effectively?

Marc Adam Spilker
Former Senior Advisor

One thing that may make this a little bit easier is AAA did its earnings call this morning. What's posted on the AAA website is a presentation about Athene, and so I think that will answer a lot of questions. But to answer your question more directly is we think that Athene will continue to grow. The largest element of that will be if the Aviva transaction closes. It's not yet closed. But in the event that it does close, that I do think we're talking about multiples, the size of where we currently are.

William R Katz
Citigroup Inc, Research Division

Okay, that's helpful. And then it's early days and you may have more of a qualitative answer. But as you start speaking with LPEs and other investors on Fund VIII, any sense of appetite at this point versus prior cycles -- prior reasons, if you may?

Marc Adam Spilker
Former Senior Advisor

Yes, thanks for the question, but I'm not going to say much about where we think that will get to. But I will go back to what we said time and time before that more generically, that what you see in a private equity industry is more haves and have-nots, people who have performed well are doing better in fund-raising than people who haven't. And then on top of all the obvious things that matter to LPEs, which is generating good returns and good risk-adjusted returns, is the integrated -- having all the other services, reporting, relationship trust, and those are things that we think that we've done particularly well with our LPEs on top of performance. And so all those things will be big factors into where we end up.

Operator

Our next question comes from Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

I'm sorry, I missed Bill's question on Athene, so hopefully I'm not replicating it. But I appreciate the additional color on Athene. It seems like Athene is really bulking up here. Yes, so what is Athene getting here with these transactions? It's sort of number one. Why is it growing so much now? It's sort of number two. And what's the endgame with Athene?

Marc Adam Spilker
Former Senior Advisor

Well, I would say that the insurance industry is going through a lot of change. And so when you think whether this is postcrisis or some of the capital issues or some of the performance, there's a whole host of reasons why the insurance industry is going through change, which means that liability blocks in the reinsurance are for sale and businesses are for sale. So what Athene is responding to is a big market opportunity to, on the one side, grow liabilities, which you effectively can think of as funding, and through what Athene Asset Management does and what it allocates to Apollo funds that we obviously think we will do very good on the asset side of the business. So we think that the business model makes a lot of sense, especially in light of the fundamental shifts happening in the insurance industry. And so Athene has grown quickly. And obviously, if this Aviva transaction will close, that's another multiple step-up in growth. And so that's really the story behind Athene.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

And I'm sorry, this is sort of a silly question, but is Athene going to be more valuable? Like based on your vision for Athene, is Athene going to be more valuable to Apollo? Or is Athene going to be more valuable to some other investor, group of investors, if you look forward into the distant future? Like this is -- is this business, the direction it's going, something that will continue to make sense for Apollo?

Marc Adam Spilker
Former Senior Advisor

Well, I would say there are 2 sides of this. There's the one side, which is the ultimate shareholder of Athene, and we believe that this is a very interesting ROE business for the shareholders of Athene. And so we believe there's a lot of value to be created there. And then obviously, for AGM in terms of the asset management platform that we're building, given the ways in which we can provide value to the balance sheet of Athene and get paid for that, we obviously think it's a very large opportunity for AGM. So in our eyes, this is a win-win.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. And then I guess more silly questions. On credit, can you talk about the expectations for demand for alternative credit if demand for traditional credit wanes? So if people are viewing the traditional credit market as being kind of frothy, is that kind of good for alternative credit? Because they're like, "Oh, we don't like traditional. We're going to move to alternative." Or does demand -- should demand or does demand kind of move in parallel between those 2 different kind of views of credit?

Marc Adam Spilker
Former Senior Advisor

It's a good question. We're really talking a lot about major secular shifts in the way portfolios are allocated and market conditions. And so the way we really think about it is traditional benchmark fixed income versus unconstrained credit investing, and in the unconstrained credit investing, where we believe we provide a lot of value or for those things that are more complex and less liquid. And so what we have seen over time with the interest rate market, where it is, that traditional fixed income investments are not accretive to the 7.5% or 8% hurdle for pension plans, therefore, increasing demand for what we think of as unconstrained credit. And given some of the structural shifts in the financial services market, where bank balance sheets have shrunk, higher capital charges, Dodd-Frank, Volcker, Basel, all these other things, the securitization market, that the center of the market is providing less of this kind of credit and so creating a big opportunity for, on the one hand, our LPEs to find places to get higher returns and for us to grow this unconstrained asset management business. So even in an environment where rates continue to grind lower, we have -- we still have a degree of optimism that there's plenty of opportunity to grow that business for all the reasons I stated.

Operator

Our next question comes from Marc Irizarry of Goldman Sachs.

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

Marc, I want to go back to the allocation services that you're providing -- that you mentioned you're providing for Athene. When you think about building the fee -- the management fee business and allocation services, obviously, Athene is one place where you can sort of put that to work. Can you maybe talk about just the revenue opportunity more broadly for allocation services for you guys, and is this really something where you see Apollo able to sort of leverage that over time?

Marc Adam Spilker
Former Senior Advisor

So thanks for that question, Marc. Yes, so let me just give a broader way of thinking about it, and then I'll answer your question more specifically, which is Athene Asset Management, which is a subsidiary of AGM, provides a whole range of services to Athene insurance, including asset allocation and risk and then all of the expenses associated with doing so. And so that's the framework to think about that. Then obviously, that -- if you do that efficiently, then the net from that, the revenues minus the expenses, if you do it well, will scale with volume. And so we believe that given how much we've grown and invested in that business, that we've gotten to an interesting point and scale, and so the incremental new assets will come at very interesting marginal margin. Whether or not we could ultimately then take that expertise and provide it to third parties, I don't really think that that's yet been in the dialogue because the team is very focused on building the company and managing the assets well. But certainly, if we build world-class insurance asset management capabilities, which I think we are building, there's going to be many opportunities down the road to figure out how to monetize that. So there's -- so I think the nature of your question is that I do think that there will be other opportunities come out of this for us. But right now, we're really focused on getting the acquisitions closed, building the infrastructure, managing the company really efficiently, generating the returns, and then once we get there, figuring out how to leverage it.

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

Okay. And then just on the credit environment, if you look at the distribution, the $0.08 and the -- realizing some of the ongoing realized carry, et cetera, on interest and dividends, can you talk about the sort of duration, I guess, of those assets and sort of how you would expect those to roll off? I imagine a lot of those are in credit investments that are -- or some of that at least is in credit investments that are sort of more mature. How should we think about the roll-off of that?

Marc Adam Spilker

Former Senior Advisor

Yes, it's very hard to say the timing. But certainly, since the majority of that are in these opportunity funds, we know over time those investments will be sold. So given the current construction of the portfolio, as we sell those assets over time, that middle bucket of 5 to 10 eventually will go down, except if we ultimately replace it with other things. And so if you look at the way that we've run our business over the last 22 or 23 years, it wouldn't be crazy to assume that as these assets roll off, others could come in. But I can't say what the construction of the portfolio will be in terms of what replaces what we have, so I don't know where it will go. But the expectation is over time that these assets we have will be sold at some point and replaced. And whether or not they're replaced with equal yielding from a sort of recurring realization point of view, I'm not quite sure. But our history suggests that there is reasonable chances that that's what the outcome will be.

Martin Kelly
Chief Financial Officer

I'll just add, I think the duration is really mostly impacted by sale decisions or restructure type decisions, that debt into equity versus maturity duration of the assets disappearing or shrinking because of debt being matured.

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

And Martin, just given all the extensions of maturity dates that we've already gone through in Fund VI and -- is there still more to go on that front or is sort of the pace of that slowing? It seems like a pretty good environment maybe to sort of take advantage of the credit markets.

Marc Adam Spilker
Former Senior Advisor

We see the pace of what slowing?

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

The pace of sort of the refinancing activity for those credits.

Marc Adam Spilker
Former Senior Advisor

Yes, I would say, as you know, we really pride ourselves on optimizing capital structures. So I would say I think the teams are fairly comfortable where the capital structures are of these investments right now.

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

Okay. And then, Martin, just one more for you on the balance sheet. Can you just -- I thought your comments on your distribution policy were interesting. I mean, how do you think about the distributions off of -- from the balance sheet and sort of the right level of cash that you would sort of need to sort of run operations and just how we should think about what -- the part of the distributions that come off the balance sheet over time?

Martin Kelly
Chief Financial Officer

I think we look at maintaining a cash position, which we think is what we need to run and grow the business, and that's based on what we can anticipate going out into the future. I think this quarter, we looked at that in conjunction with the realization activity and made a decision to distribute the $0.10 piece based on a return of balance sheet investments. And that included both return of capital and income, net of new money that we put back into Fund VI. So it's very difficult to sort of look forward and predict beyond saying we look at what we can reasonably anticipate in the future and where we're comfortable maintaining the cash. And if you look at the cash position at December, given the strong realization activity in Q4, it's -- over a net cash net debt position, that's significantly higher than where it's been in the past.

Operator

Our next question comes from the line of Mike Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Just on the fund-raising in the quarter, it seems like you had the core fund-raising, and then the bucket where you had the other, the acquisitions, that was elevated. Assuming that's either related to the Athene side, but I just wanted to make sure on that. And then just when we think about Athene going forward, I just wanted to make sure, like is it a simple -- from your P&L as assets go up, you're going to get a fee rate on that, or any products, if you get incentives on it, like your other business? Just trying to figure out, when you say insurance, is there any different like P&L impact or accounting versus just what we're typically used to in the overall business?

Martin Kelly
Chief Financial Officer

I think generally speaking, it's reasonable to expect that the fees will increase as the AUM increases. There is a carry component related to AGM's investment in AAA, so that's in addition to what we covered on the call. And there is this new -- the advisory contract that we mentioned, that has been restructured such that future fees are paid in the form of equity versus cash. But generally speaking, I think it's safe to assume that as the assets grow, so will the fees, subject to containing and managing expenses around providing those services.

Marc Adam Spilker
Former Senior Advisor

But I just want to add at a high level just to try to simplify all this, that we get a overall fee based upon total assets for asset management and other services. And there's all sorts of costs associated with that. And so there's a net P&L times the AUM plus -- and we've said this many times in the past, and I think Martin referred to it in his script -- some of the money then gets allocated directly to funds that we manage where we will receive normal fees. Some of those are management fee only, and some of those are management fee plus incentive. So that piece of it works like any other LPE, which is growing the AUM in the funds that we manage directly.

Gary M. Stein
Head of Corporate Communications

Just to take the first part of your question about -- you asked about the inflows on the AUM, the other inflows and acquisitions. Yes, a portion of that -- a significant portion of that is related to Athene's acquisition of Presidential, which closed just before the end of the year. So it really got added to AUM as of year-end, but from a fee perspective, didn't really see any fee given when it closed in -- during the quarter. But obviously, so as we've got the acquisitions, we also, as we talked about, had nearly $5 billion in distributions, and that was largely offset by acquisitions. But obviously also, the organic capital raises, things like that, EPF II and natural resources.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, got it, makes sense. And Martin, just you mentioned on the non-comp I think a little bit elevated just for some of the placement fees. I'm just trying to figure out, 2012, you guys are pretty active. 2013, you'll be working on funding. So just when we think about sort of that level, should we see some fall off and then some pick up as that ramps up, or just can you give any color on that?

Martin Kelly

Chief Financial Officer

I think we -- as we continue to grow out the business from a credit side and the PE side, we'll see a continuation of placement fees. So that will -- it's hard to predict the amounts and when, obviously, but that will be a feature, I think, going forward.

Marc Adam Spilker
Former Senior Advisor

Mike, just to add to that a little bit is that the -- our franchise has grown, and we try to raise the money organically ourselves with our marketing team, and in certain places, we'll play -- we'll take placement fees. And if you look at the past private equity funds, we have hired placement agents in certain places. And so depending upon when you would have a closing and depending upon what that arrangement would be, there could be a larger number in there. But it's very hard, as we sit here today, to speculate how big that would be and what quarter it'll occur. And so there could be some volatility around that.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. And last one, everyone's got slightly different like comp arrangements. Just remind us, and this is more for the full year, but if share count ticks up a little bit, I think it was going to be some -- that's going to be given to employees over the year, just remind us roughly what that percent should be? And I'm assuming you want to increase the float, that's one way to do it, but you're not going to be mining that, and meaning we shouldn't expect that to just like tick up over time.

Marc Adam Spilker
Former Senior Advisor

Yes, I would say what's happened over the last couple years has really been 2 forms of increasing share -- of share grants: One is in the form of welcome grant and the other is normal compensation. And so it's hard to say exactly what the right run rate is. I mean, we can look back over the last couple years -- I would say the last year or 2, it feels like we're dealing, we're operating in a normal versus a growing -- and if you look back to 2008, '09, '10, '11, we did hire a significant number of senior people. And we feel like the management team and the leadership team is very, very well built out. That doesn't mean that we won't have big welcome grants, but I would say the expectation is that they should be lower than they've been in the past. But compensation is operating as normal. And -- but for our desire to continue to create the most effective comp plan, where we may see some changes of stock versus other things and that's stuff that we always debate, that I feel like from a annual king [ph] stock is part of compensation. We're in a more normal environment, where the last couple years have felt more normal to me. So I don't know how if that exactly answers the question, but that's how we think about it.

Operator

Our next question comes from the line of Chris Kotowski of Oppenheimer.

Christoph M. Kotowski
Oppenheimer & Co. Inc., Research Division

Got questions on the credit business. One is there is a nice step-up in the linked quarter base management fees. And I was wondering, is that just the impact of the $1.2 billion in new funds that you referenced? Or are there drawdown funds that bring AUM into fee-paying mode over -- as they're drawn down?

Martin Kelly
Chief Financial Officer

It's -- I think it's both. But it's also, as we mentioned on the call, there were onetime catch-up fees on...

Christoph M. Kotowski
Oppenheimer & Co. Inc., Research Division

Okay. And then secondly, on the carry arrangements on most of the credit funds, are they -- are there absolute hurdles that you're going against? Or is it relative to benchmarks for the most part? I guess what I'm wondering is in particular, in an environment where either rate is back up or there's a backup in the high-yield markets, how should one think about carrying the credit business in that kind of environment?

Marc Adam Spilker
Former Senior Advisor

Yes, I think it's a good question. We don't really have benchmarked AUM opportunity funds. Mostly, we'll have a hurdle rate. I would say more broadly, we get asked the question a lot about what happens in an interest rate up environment. And if you look at the construction of our business, it's very barbelled [ph]. The big performing loan business is -- has a lot of floating rate in it, so less affected by the move up in rates. And the other side which is as we continue to say the less liquid, more complex, which has lower beta to the market. And so we think in general that if rates spike, we think that will overall be an opportunity for our business. Having said that, there will be some assets in the portfolio that will go down in value because they're related to the markets, and so you could see some ENI markdowns. And then, of course, ultimately, it's all about the -- whether or not we underwrite the credit well.

Operator

Our final question comes from the line of Patrick Davitt of Autonomous Research.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

You mentioned the postcrisis retrenchment of traditional sources of capital, which we've seen open up a lot of new businesses for you and your competitors, particularly in energy, you're seeing it in insurance now, some multiple [ph] forms of bank lending. Are there other businesses like that where you're seeing the starvation of capital that you guys can take the place of that can kind of give you new pools of growth beyond the energy and insurance space?

Marc Adam Spilker
Former Senior Advisor

Yes, it's a great question. It really goes to the core of our strategy, which is it's kind of again the barbell. In the markets today, you have things that are very liquid, and you could argue whether there's no risk premium or negative risk premium, but you could look at the other side of the barbell, where there are things that are less liquid, more complex, that have very interesting risk rewards. And the business that we're trying to build is to find those places that have good risk rewards, harder to understand, more complex, less liquid, and the traditional sources of funding have dried up. And so we think that on an ongoing basis, that's a big opportunity for us. So energy mess [ph], Europe broadly, certain sectors of real estate, and I alluded to that earlier on the call, and there are a variety of other ones that we continue to look at. And if you look at where our platform was 5 years ago versus where it is today, things that we're doing as a matter of course today, we weren't doing RMBS, CMBS, structured credit, CLO liabilities, CLO equity. And so we continue to believe that there are asset classes for us to move into. And I would say the really -- and the -- one thing that's really important to us is that we want to stay on our core thesis of value-oriented investing. And so the market, we believe, is providing us the opportunities to take our investment process and our investment mentality and apply it to some of these markets that have been a little bit starved for capital.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay, great. That's helpful. And getting a little bit more specific on Europe, you guys have been at least the most publicly involved in some transactions in Spain. And we're hearing through multiple channels that the bid ask that's a lot closer with the banks there than in a lot of other European countries, particularly on the real estate side of things. Are you starting to see a pickup in flow in that regard?

Marc Adam Spilker

Former Senior Advisor

I would say probably a little bit. There's an element that the -- there's an element going on where there are some banks that need to continue to sell and -- a lot of European banks. But if you look at some of the so-called global banks, healthier balance sheets and looking to put capital to work. So there's certain parts of market in Europe that have greater ability to get financed today versus maybe 6 months or 1 year ago. And so we believe that, that will facilitate more transactions.

Operator

This concludes the Q&A session for today. I would now like to turn the call back over to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Thanks, operator. Thanks, everybody, for joining us today. As we said earlier, if you have any questions, please feel free to follow up with either me or Patrick Parmentier. Thanks again.

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