S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

FQ2 2011 Earnings Call Transcripts

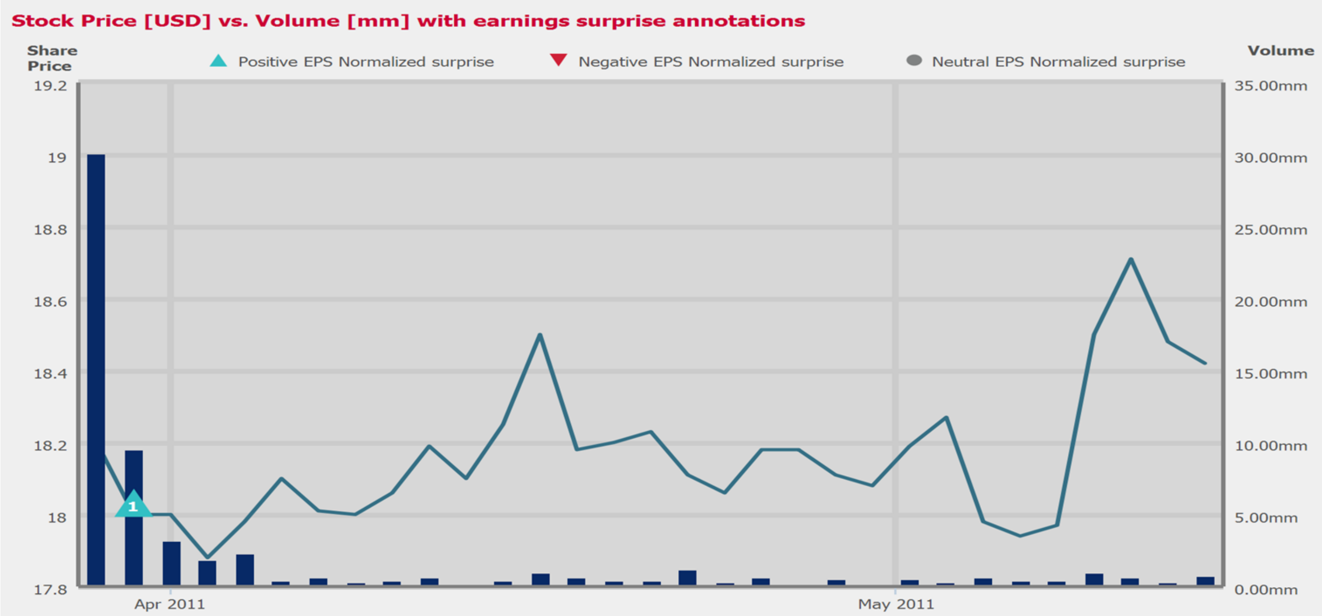
Tuesday, August 09, 2011 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.37	1.15	▲210.81	0.55	2.48	2.76
Revenue (mm)	379.21	308.88	▼(18.55 %)	450.61	2228.40	2307.12

Currency: USD

Consensus as of Aug-09-2011 2:30 PM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.78	1.10	▲1 41.03 %

Call Participants

EXECUTIVES

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Senior Adviser

Gary M. Stein
Head of Corporate Communications

Marc Adam Spilker
Former Senior Advisor

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M. Patrick Davitt
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Michael Roger Carrier
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Neil Stratton

Presentation

Operator

Good morning, and welcome to Apollo Global Management's Second Quarter 2011 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. Please go ahead, sir.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone, to Apollo Global Management's Second Quarter Earnings Conference Call. Joining from me -- joining me from Apollo on today's call are Marc Spilker, President; and Gene Donnelly, Chief Financial Officer.

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

We will also be discussing certain non-GAAP measures on this call such as economic net income or ENI, which is reconciled to GAAP net income attributable to Class A shareholders in our press release. Please refer to our most recent amended registration statement that was filed with the SEC for cautionary factors surrounding forward-looking statements, additional information on non-GAAP measures and risk factors relating to our business.

This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow up with me or 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. We're happy again to welcome everyone to today's earnings call. We know you're all exceptionally busy, so we appreciate you taking time to participate. I'd like to give a few brief remarks on the markets and our performance and then offer some insight around our key business activities. I'll then turn the call over to Gene, who will provide additional detailed remarks on our financial results, before opening the conference call for questions.

In the press release we issued earlier this morning for the second quarter of 2011, we reported total revenues of $309 million, which was up 290% from $79 million in the second quarter of 2010. We also reported economic net income, or ENI, of $140 million during the second quarter, which was a 510% increase from the same period a year ago.

When combined with Apollo's strong first quarter results, our ENI for the first half of 2011 reached $530 million compared to $100 million during the same period in 2010. Apollo's total assets under management at June 30, 2011, now approximately $72 billion, which is up 32% from a year ago.

Our financial performance during both the second quarter and the first 6 months of the year have been driven by the continued strength of our underlying funds and by leveraging our diversified and integrated global platform.

We're also pleased to see continued monetization of our carried receivables as we finalize the successful sale of Hughes Communications from Fund IV during the quarter, which contributed to a second quarter distribution of $0.24 per share for a total of 46% -- $0.46 per share year-to-date. During his remarks, Gene will provide you with some additional details regarding the components of our second quarter realizations.

With global markets unsettled, reviewing our second quarter results with you today seems like we're talking about events that took place a lifetime ago. Over the past few weeks, a heightened level of uncertainty has reemerged within the broader markets as investors come to grips with the S&P's downgrade of United States' long-term credit rating, sovereign debt concerns in Europe and lower growth expectations in both developed and emerging markets around the world. These factors continue to weigh on global markets. However, looking at our business today, we believe we are well positioned given our strong balance sheet and the $10 billion of dry powder ready to be deployed by our funds.

We believe these types of environments combined with the long duration of the capital we manage, our ability to selectively invest up and down the balance sheet and our flexibility to quickly shift investment styles play to Apollo's strength as a value-oriented and contrarian alternative investment manager. Finally, the solid investment performance of our recent private equity funds demonstrates our ability to invest in challenging environments.

With this in mind, I'd like to make a few remarks about each of our businesses, starting with Private Equity. Similar to the first quarter, what we saw in the second quarter was that the industry had a significant amount of dry powder that needed to be put to work. This abundance of equity capital along with historically low financing rates and heightened acquisition activity by cash through its strategic investors, drove up valuations for traditional leveraged buyouts. Despite these market dynamics, we continue to find differentiated and proprietary opportunities to deploy our Private Equity capital around the world while staying true to our core strategy as a value-oriented investor.

Since the beginning of the second quarter, our Private Equity business has deployed $564 million in both equity and debt. Investments include the buyout of CKX and the acquisition of Sprouts.

We announced a $350 million investment in India-based Welspun, which is one of India's fastest-growing conglomerates. We announced the purchase of France-based Ascometal from Lucchini, which we believe is a great example of our long-standing and differentiated ability to complete highly complex corporate carve outs. And we once again have begun to buy the distressed debt of good companies with challenged balance sheets in industries that are well known to Apollo.

Turning to the realization pipeline for a moment. Five of our portfolio companies have filed S-1 registration statements, and there has been very good dialogue with potential strategic acquirers regarding certain portfolio companies. However, as you can imagine, all these realizations are highly market-dependent.

Before finishing on Private Equity, I want to provide some color on recent performance of our portfolio companies. During the second quarter of 2011, despite lower carried interest income relative to prior quarters and ongoing macro headwinds, the equity and debt investments in Apollo Private Equity funds maintained their strong performance while appreciating by approximately 3%.

Just to clarify, when we discuss appreciation of our funds, this figure represents the change in the value of our portfolio holdings from the end of the first quarter of 2011 to the end of the second quarter of 2011, adjusted for any portfolio purchases or sales during the quarter.

During the quarter, our funds portfolio investments provided contrasting outlook relative to the market sentiment. For the second quarter of 2011, aggregate revenues among our FUND VII and Fund VI portfolio companies were estimated -- up an estimated of 18% compared to the second quarter of 2010, while EBITDA was up an estimated 12% in aggregate over the same period.

It is also worth noting that we continue to see a distinct performance difference among our global industrial portfolio companies as compared to our non-industrial domestic portfolio companies.

I'd now like to spend a few minutes discussing our Capital Markets business. During the second quarter, similar to Private Equity, generally speaking, our Capital Markets funds have maintained a positive investment performance despite challenging economic environment. As of June 30, our Capital Markets AUM was $23.7 billion, up 25% from a year ago. During the second quarter, we enhanced our standing as one of the world's leading senior loan managers. We expanded our senior loan platform with the launch of our third CLO in the past year. This transaction was very well received, and the original $410 million offering was ultimately upsized to $461 million. We believe this is a great example of the dynamics of the new post-credit crisis CLO market, where the barriers to entry are exceptionally high, yet the opportunity is there for issuers such as Apollo, with a strong brand name, a track record and a proven ability to attract capital.

It is also worth noting that we recently announced the acquisition of Gulf Stream Asset Management, which is a leading CLO manager with 10 CLOs and over $3 billion of AUM. This transaction is subject to certain closing conditions. We believe this strategic acquisition leverages Apollo's existing senior loan platform, further strengthens our position as a leading global manager of loans and provides us with access to a large group of institutional investors that are new to Apollo's integrated platform.

As we have been highlighting, we continue to identify actual opportunities to buy a diverse array of assets in Europe. As an example, during the second quarter, our European non-performing loan fund or EPF agreed to acquire a portfolio of nearly EUR 600 million of Spanish credit card loan receivables from a leading global financial institution at a meaningful discount to face value.

As part of this transaction, a portfolio company of the fund will acquire a 300-person team to service these loans. When combined with EPF's existing servicing platform, the funds servicing portfolio companies now have approximately 425 people on the ground in Europe, which we believe provides us with a distinct competitive advantage as we pursue the purchase of additional loan portfolios across Europe.

Looking at the real estate business, generally speaking, during the second quarter, we have been seeing improving marketing conditions for deal flow in the U.S., where supply and demand economics appear to have stabilized, while Asia continued to offer attractive investment opportunities, and Europe was lagging.

Over the last 2 years, our real estate AUM has grown from $0 to $7.6 billion. In terms of notable recent events, we established a strategic account with a major sovereign wealth fund to pursue high-value added debt transactions. In addition, Apollo's U.S. real estate fund held a second closing during the quarter, and subsequent to the end of the quarter, the fund announced its first transaction, a $400 million joint venture with Driftwood Hospitality Management to acquire, renovate, reflag full-service hotels across the United States. Driftwood is actively pursuing acquisitions today, and the joint venture has already purchased 2 hotels.

I'd also like to highlight that subsequent to the end of the second quarter, we completed a $200 million initial public offering of Apollo Residential Mortgage on the New York Stock Exchange. This REIT, which trades under the ticker AMTG, is focused on mortgage-backed securities, residential mortgage loans and other residential mortgage assets in the United States.

Finally, before Gene provides an overview of our financial results, I'd like to give you an update on some of our fundraising initiatives. Last quarter, I mentioned that our ongoing dialogue with many of our large investors around the globe to establish strategic investment accounts. Given Apollo's diversification, we can offer these investors a menu of investment solutions with the alternative asset class in which we can customize to address their respective risk/reward targets.

We continue to believe that Apollo remains well positioned to capture sizable allocations of capital to the alternative sector as investors seek to consolidate relationships among branded scale players with a strong, long-term track record and robust infrastructure.

To that end, during the second quarter, we made significant progress to establish strategic accounts with several of the world's largest pension and sovereign wealth funds. In one situation, a pension fund doubled the size of its existing strategic account with Apollo from $750 million to $1.5 billion. In addition, we have a number of similar discussions underway around the world, and we will believe this momentum reflects our strong positioning within the alternatives landscape.

Overall, we're pleased with how we're operating in the context of a more challenging environment. We believe we are truly leveraging our integrated platform on a global scale with respect to both capital formation and capital deployment. We remain watchful of the dialogues taking place in Washington and elsewhere, and we'll proceed with caution as we continue to deploy capital and managing our existing investment portfolio.

With that, I'd like to turn things over to Gene.

Eugene Donnelly
Senior Adviser

Thanks, Marc, and good morning. I'm going to briefly walk through some of additional detail around our financial results and highlight some of the more meaningful points around second quarter activity.

Our total assets under management grew from $55 billion at the end of June last year to approximately $72 billion as of June 30, 2011. Significant drivers of this 32% increase during the last 12 months include more than $12 billion of increases in fair value of our underlying fund investments and approximately $6 billion from capital raises and strategic acquisitions.

Looking at fee-generating AUM, we had approximately $49 billion as of the end of June this year compared to $43 billion at the end of June 2010. This 13% increase was also driven by the increases in fair value, capital raises and strategic acquisitions.

On an overall basis, our portfolio investments continued to perform well during the quarter despite a volatile macro environment, which sustained our solid financial performance across the business. We're very pleased with total ENI results during the second quarter, which was a significant increase from the second quarter of last year. We generated $140 million of ENI in the second quarter of 2011, which included $95 million of Incentive Business ENI balanced with $45 million of Management Business ENI.

For the 6 months ended June 2011, we've generated over $1 billion in total revenues compared to just $300 million during the same period of 2010. And our total ENI of $530 million for the 6 months of 2011 is more than 5x greater than the $100 million of ENI generated in 2010. This growth was driven in large part by depreciation of our Private Equity portfolio over the last 6 months.

Improved valuations in our underlying portfolio investments led to a $164 million of total carried interest income during the second quarter compared to an unrealized carried interest loss of $54 million during the second quarter of last year. Also notable is the $190 million of total realized carried income generated during the quarter, which was driven by the sales of Hughes Communication, as well as interest income primarily from the portfolio company debt investments held in FUND VI and FUND VII. These realization events have a direct and visible impact on Apollo's liquidity.

During the 6 months ended June 2011, Apollo was general partner to the funds it managed, received cash payments of $391 million for carried interest income earned, evidencing the ability to generate cash from our carried receivable and, therefore, to make distributions to our shareholders.

Looking at unrealized gains on our portfolio of investments that drove both AUM growth and unrealized carry in the second quarter, there are a handful of companies that we'd like to highlight. Our Private Equity investments in Momentous, Siva, Charter, SOURCECORP, as well as our debt investments, were the largest drivers of our unrealized gains. It should also be noted that unrealized gains will appear lower on a combined segment basis and specifically for our Private Equity segment in light of the use realization, given that prior period gains are reflected as a transfer from unrealized to realized during the quarter.

In terms of valuation methods, there were no significant changes from the previous quarter. Approximately 47% of the total fair value of our funds portfolio company investments was determined using market-based valuation methods, with the remaining 53% determined by comparable company and industry multiples for discounted cash flow models.

For our Private Equity, Capital Markets and Real Estate segments, the percentage determined by market-based valuation methods was 42%, 55% and 42%, respectively.

Our carried interest receivable was $2.2 billion as of June 30, with a corresponding $837 million profit sharing payable, resulting in a net $1.4 billion of carried interest receivable on our balance sheet. The receivable increased $723 million over the last 6 months from additional carried interest income earned offset, as previously mentioned, by the $391 million of cash received from investment and interest income realizations.

The composition of the carried receivable by Private Equity fund and Capital Market strategy is also summarized in a separate table included towards the end of our earnings release.

Our non-performing loan fund, EPF, is substantially through its 82-20 carry catch up as of June 30. All of our Private Equity funds and the majority of our Capital Market funds are past their respective hurdle rates on a mark-to-market basis.

Apollo also has investments in its own funds that are currently valued at approximately $300 million, which year-to-date through June have generated more than $27 million of GAAP investment income. These investments also generated $32 million of cash that came back to Apollo during the first 6 months, of which we reinvested approximately half back into our funds over the same period.

Turning to distributions. I'd first like to provide you with some context as to how we think about the components of our quarterly distribution. In general, our distribution can be broken down into a number of income streams. Realizations from the sale of our portfolio investments, management, advisory and transaction fee profitability, interest income from our portfolio of debt investments and dividends from our publicly held equity securities.

As Marc mentioned earlier, we declared a $0.24 per share distribution for the second quarter. Similar to prior quarters, this distribution comprises a regular $0.07 per share distribution and $0.17 per share from realizations.

Looking at this amount by income stream, the $0.24 per share second quarter distribution includes approximately $0.10 from the sale of Private Equity investments and $0.14 from management, advisory and transaction fee profits, interest income and dividends from public securities held by some of our funds.

Before I conclude our prepared remarks, a comment around taxes. Our tax provision for the quarter was $3.6 million on a GAAP basis, and that includes both UBT and foreign taxes. If we were to assume that all units currently held by our insiders through AP [ph] professional were converted into public company shares and that all of our earnings flowed through the same structure, the implied tax provision for the quarter would have been approximately $7.8 million.
With that, we'll open the line for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Patrick Davitt of Bank of America Merrill Lynch.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

I have a question about the mechanics of the Hughes realization. Why would you not book the entirety of the gain as unrealized in the first quarter when you announced the transaction, given you knew what you were selling it for?

Eugene Donnelly
Senior Adviser

That's a good question. Okay, we marked the Hughes investment consistent with our valuation policies, recognizing that the transaction was subject to completion and final closure. Once the transaction was completed, we recorded the remainder of the gain.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

So there was a pretty significant discount associated with that when you booked the gain in the first quarter?

Eugene Donnelly
Senior Adviser

Yes. The Hughes asset was -- we were looking to dispose of that asset for a while. So things came to closure in the second quarter.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay, okay. And what asset classes within Capital Markets were the biggest drivers of the decline in incentive fee income, sequentially?

Eugene Donnelly
Senior Adviser

Sequentially?

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Yes.

Eugene Donnelly
Senior Adviser

Okay, why don't we hold that question while I pull the details for the answer. Come back to that, if that's okay?

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Yes, that's fine. We've had a pretty significant sell off in the markets. Does that suggest that you feel like you should start getting more aggressive on the capital deployment front? And do you feel like your LPs are on the same page with you in that regard? Or do you think that they're panicking a bit?

Marc Adam Spilker

Former Senior Advisor

No, no, no. I wouldn't say that at all. I would say, in general, what we've always said is when the markets are going up, we're looking to do realizations. And when the markets are going down, we're looking to deploy capital. So I think that we're on our front foot looking to deploy capital. And If you look at the long history of the firm and the great relationship we have with our LPs, these are environments in which they look to us to deploy capital. And so there's plenty of work, and there's plenty of dialogue going on, and prices are cheaper. And so fixed-income markets have come down and there's a lot of ways to put money to work, and we're going to do it in a sensible way.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay. And just finally, you mentioned the CLO that is coming in post 2Q and some other things. Can you kind of run through everything that is committed and not yet in AUM? And if you're not willing to give an exact, I guess, figure, just what is currently fundraising, all of the strategies that are fundraising?

Marc Adam Spilker
Former Senior Advisor

Well, I can't -- I'm not going to talk about what is currently fundraising. Obviously, we've disclosed that we are going to try to close the Gulf Stream transaction, and that's $3 billion. So if that closes, that will come into AUM. And we're actively fundraising in a lot of places, but I'm not going to talk about anything specifically. And I think we've highlighted on prior calls the areas in which we're looking to grow the platform.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

And did you...

Eugene Donnelly
Senior Adviser

Yes, we're still gathering the data. We'll come back to it before we end the call.

Operator

Your next question comes from Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

I just wanted to maybe follow-up on Patrick's question. So in Capital Markets, you've talked about, obviously, fundraising environment being a pretty interesting one. And it sounds like you had -- Marc, you highlighted a couple of strategic accounts closed. It's not clear. Is it already in the run rate? Is it not there in the run rate? It would be helpful to get a sense of what that number is so far in the third quarter. Plus, I guess you guys talked about the $200 million in real estate. So if you kind of aggregate everything together, what, were it adjusted, what would be that amount?

Marc Adam Spilker
Former Senior Advisor

Well, I don't have a number, and -- so I understand that you're looking for a number, but I don't have one. But just -- suffice it to say, what we continue to say and what we continue to do is make real progress on these strategic accounts. And on the one hand, it's because our LPs see Apollo as a diversified alternate asset manager with a long track record and all the stuff that we've highlighted. But I will say that these things are very complicated to get across the line, and we have high confidence that we'll get a handful across the line. But until it's done, we're not going to report anything, but we just want to give you a sense of where we are. And so -- and then, obviously, the Gulf Stream we've reported, so that's a number that you could keep in the back of your mind for when that closes. But that's the only thing that we've been very specific on in terms of an AUM number.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Okay. And maybe then, with respect to fees, I guess, in both these new initiatives, Gulf Stream, the AMTG, the $200 million that's raised, what's the general sense of what kind of management fees is coming down those assets?

Marc Adam Spilker
Former Senior Advisor

Well, the AMTG is 1.5%, and I think that you could look at Gulf Stream and kind of look to what CLO managers generally charge and assume that we're sort of in that range. And so I think you can get a pretty good sense of the run rate revenues from both of those. Now Obviously, the AMTG has done raised, and fees are starting to be accrued. And again, the Gulf Stream has not yet closed, but those are 2 numbers that you can certainly quantify within a kind of relatively small range.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Okay. Maybe just switching gears a little bit on distributions and realizations. The breakdown was very helpful, so $0.10 and $0.14. So assuming that markets are a little bit choppier absent of any sort of big private equity exits, can we think of that $0.14 as more of a recurring distribution?

Eugene Donnelly
Senior Adviser

Assuming that our level of investments in these debt instruments and the public equity securities continues, and that the funds generally stay in carry, I think those are valid assumptions. I think it's important to note that the dividend component of that is dependent upon the public company boards continuing to declare those dividends.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Understood. And I guess just a last one for me, just on the numbers. It looked like the net advisory, so like the monitoring transaction fees, picked up a little bit sequentially, but then the capital deployment slowed down a little bit. So was there any one-off kind of like special monitoring fees termination-type of revenue and reported number that should reverse itself out in the next quarter?

Eugene Donnelly
Senior Adviser

No. There were no buyouts of management fees in the quarter. We just had some transaction fees for the some of the deals that Marc talked about.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Got it. So like the 24 is a decent run rate?

Eugene Donnelly
Senior Adviser

Well, again, it depends on the level of transaction activity. If I can go back to Patrick's question, if I could refer you to Page 79 of the -- sorry, Page 18 of the press release, and then you'll see it as well in the 10-Q on Page 79, I think the answer to your question in terms of the components of carry by type of Capital Markets fund is provided in detail.

Operator

Your next question comes from Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

In terms of the volatility, can you maybe give us a little sense about the impact it has on fundraising? Does it link from the sales cycle out? Does it kind of push investors over the edge to pull the trigger and invest capital with you with regard to the Capital Markets businesses?

Marc Adam Spilker
Former Senior Advisor

Well, I guess I would say that we went from one sort of state of the market to another state of the market pretty quickly. And as you know, these dialogues happen over long periods of time, so it's really hard to say precisely how this environment is going to affect the fundraising. But I would say that when we think about what's happening, when we think about what's happening at the macro level, our continued view that credit is an interesting place to allocate capital, we continue to believe that. And if credit is going to provide a higher return, then I'd like to think that the fundraising will be unaffected, given that the opportunity for that asset class is probably going up and not down. But again, this is all happening in real time, and we'll see what has happened. I can say that the dialogues that we have been having and continue to have, have not really changed. And we haven't seen any meaningful change to -- kind of the attitude to try put capital to work.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

And then just following up on Gulf Stream. You, I think, made pretty clear that you really like the client base, and that was the main reason for the purchase. What other capabilities or resources either were you interested in or do you feel that you really got from the transaction? And how active are you in dialogue with other companies to maybe pursue more transactions in the Capital Markets business? Is this something that you would continue to expect throughout the year?

Marc Adam Spilker
Former Senior Advisor

So I would say that the general concept is -- and we obviously have been saying that we see big opportunities in capital markets and the credit space, and so we are building out our capabilities. Gulf Stream represented a great opportunity for us to bring on expertise in terms of people, in terms of knowledge of credits that maybe we haven't covered, and what I highlighted in my opening remarks of LPs who may not have been familiar with or associated with the Apollo platform. And so those are really the 3 key drivers of that transaction. And I think that we're going to continue to drive forward to build out those 3 key elements, whether it's through organic growth or acquisition. And we'll just evaluate when we see things. The space is clearly consolidating. We believe we have a long-standing expertise in this space, and we want to continue to be a consolidator in the CLO and really, mostly, the senior loan space.

Operator

The next question comes from Howard Chen of Credit Suisse.

Howard Chen
Crédit Suisse AG, Research Division

Marc, just a high level one on the current environment. I mean, you all put as much, if not more than anyone else on the ground during the financial crisis. I guess, just given that experience, wondering if you just compare and contrast the environment today to back then.

Marc Adam Spilker
Former Senior Advisor

Well, I would say, again, we look at these environments as opportunities to put capital to work. But the thing that you have to be determined is how long were those environments? And so if this is a blip down, if it stays here for a short period of time, then it's going to be harder to get capital to work. And if it stays here for a long time, it'll be easier. And so that's something that is really unknown. The environment is clearly different from '08, and it obviously remains to be seen. But there is clearly a -- we don't see strains on the liquidity side. We see anxiety about sovereign debt in Europe. We see anxieties about growth, and we're seeing repricing of the markets. But that's distinctly different from what we were seeing in '08, which is -- which was really credit crisis and liquidity. And so not to say that one thing leads to the other, but for now, what we're looking at is a repricing and an opportunity to put capital to work. And just like the flip side, when the market goes up, it needs to stay up long enough to be able to make realizations. The markets need to stay down long enough for us to maybe capital work. And now we're thinking about [indiscernible].

Howard Chen
Crédit Suisse AG, Research Division

Great. And just honing in on Europe, Marc. I mean, Apollo has been very active in the market. EPF will only augment that capability for you all. But just can you give us a flavor of what's going on in really real time in the region and, just qualitatively, what you're looking at to see how this opportunity plays out in the next few months?

Marc Adam Spilker
Former Senior Advisor

Well, I'll say it, I don't have any particular insights that you all don't have just by looking at the same news sources we're looking at. But I will say that what the dynamics in Europe are really reinforcing of our core thesis about long-term, locked up capital is going to be an advantage for us because the assets will continue to have to be sold. And then secondly, this is really true globally, which is our view that money will continue to flow into alternatives and well-underwritten credit portfolios, and that's both globally and within Europe.

Howard Chen
Crédit Suisse AG, Research Division

And then final one for me, Marc. You noted increased strategic dialogues for potential portfolio realizations. Just wondering why you think that's the case? And is that higher than it normally is?

Marc Adam Spilker
Former Senior Advisor

Say that again, Howard?

Howard Chen
Crédit Suisse AG, Research Division

Just on potential portfolio realizations. You spoke about increased M&A dialogue, I think is what you were getting at for exits. I was just wondering why you highlighted that? Is that higher than it normally is? Or just a flavor for what you're seeing today?

Marc Adam Spilker
Former Senior Advisor

Well just to follow-on to your last question, the one thing that has changed a little bit over the last handful of months, and we think that the events of the last few weeks will sort of exacerbate this, is the dialogue we're having about creating Europe-only separate accounts. And so that's kind of in the works. That's in our broad category, our strategic accounts, but the notion that some of our large LPs want to put money specifically to work in Europe. And that's really on the ground dialogue, that's really changed in the last handful of months. I would say -- I just -- I want to highlight 2 points about realizations. One is that they're very market dependent. But the question that we have been getting prior to the last 6 weeks is what about realizations? What about realizations? And I just want to highlight that there's a lot of work that had -- that's happening around here on the realization front, and that it becomes market dependent. And then part of that is the IPO market, and part of that is just generally, there's a very healthy strategic dialogue about -- in the M&A world, and it works both ways. One is it does drive up some prices, maybe makes it harder for us to put capital to work in the traditional sense, but then also there could be possibilities for us to do strategic transactions. And I just wanted people to know that we're working on all those things.

Operator

Next question comes from Alex Kramm of UBS.

Alex Kramm
UBS Investment Bank, Research Division

Just hoping that on the investment side you can flesh out your comments a little bit more. I mean, you obviously said that you have that value-oriented approach and this would be the time to shine. So just hoping that you can give us a little bit more flavor for what geographies you're looking at, maybe any shift in sectors where you've been strong in the past or not, or what's the area of the capital structure in particular.

Marc Adam Spilker
Former Senior Advisor

I guess I'll just frame it in a more broad sense, which is this is obviously happening in real time. So I really just want to point to 2 things. One is our long-term history of doing well in more complicated environments. And then secondly, the focus that we have on scouring the world, combing through all the opportunities and looking to put money to work. That doesn't necessarily mean that we're sure we're going to find it. It doesn't necessarily mean that we're sure these are the right prices. But this is the kind of environment where we look to be aggressive because we think that this is a differentiator for us. And so since it's happening in such real time, it's very hard for me to point to something specifically. Because as you know, things are changing by the day, by the hour. But generally, in this environment, we're trying to be on our front foot and look for ways to put capital to work.

Alex Kramm
UBS Investment Bank, Research Division

Okay. And then maybe related to that, more of a numbers question. I noticed in the second quarter, on the Private Equity side, the management compensation ticked down a little bit, both on a percentage basis and on an absolute basis. So just wondering if there was anything to that or if it's also a reflection of maybe how you're looking towards the second half of the year in terms of your own hiring plans and, in terms of the environment, deteriorating a little bit.

Eugene Donnelly
Senior Adviser

Thanks for the question. We continually look for opportunities to better align our compensation with performance. And over the past year or so, we've increased our headcount in connection with growth in natural resources, which is part of the Private Equity segment, and other businesses across the platform. And an increasing percentage of the related compensation for those individuals, as well as others at Apollo, is now more directly tied to investment performance. So we're increasing the variability of our compensation schemes here, and that's what you're seeing.

Alex Kramm
UBS Investment Bank, Research Division

Okay, great. And then just coming back to the strategic accounts real quick, can you just remind us a little bit of how those are structured? I mean, you talked about permanent capital a lot. I mean, is this something where you think this money is going to be locked up for a while? Are people trying to push back a little bit on how long they are committing this capital? Or how should we look at that capital going forward?

Marc Adam Spilker
Former Senior Advisor

So I would say that every single one of these is totally different, and they're very much customized in every way. But there are some generalities, which are multiple asset classes, generally longer duration, locked-up capital in places where we have very strong relationships with LPs, where they're putting their faith in our ability to make allocation decisions within a context. And so that's the general. So it's very hard to say specifically, but we think that this works really well for our LPs in terms of what their objectives are. It certainly works well for us in terms of how we invest capital.

Alex Kramm
UBS Investment Bank, Research Division

Okay, great. And just one last quick one, and this might be a little bit detailed for the call, but when I look at your change in Capital Markets' AUM during this quarter, I saw that there was a significant tick down in leverage. Looking back at some of the old quarters here that you've reported, I don't see that ever ticking down. So just wondering what drives that? Is there any particular change in thinking? Or is this just something that's ticking -- move up and down at a quarterly basis?

Eugene Donnelly
Senior Adviser

That is a detailed question. If it's okay with you, we'll get back to you offline on that?

Alex Kramm
UBS Investment Bank, Research Division

Totally fair.

Operator

Next question comes from Michael Carrier of Deutsche Bank.

Michael Roger Carrier
Deutsche Bank AG, Research Division

You hit on the -- just given the environment, the capital raising environment, also on the realizations. I guess I just have really 2 questions. First, when I think about -- on the deployment side. Any, changes on the financing front that you've seen over the past couple of months, weeks? And then when you think about the returns in the business going forward, if we are kind of stuck in this sluggish global growth outlook, like, how does that weigh on your returns? And then on the flip side, do you get some benefit because some of the banks, some of the big financial institutions are pulling back in certain areas? So there still might be avoid in terms of capital available to fund certain areas so the returns can still be pretty attractive.

Marc Adam Spilker
Former Senior Advisor

Well on the first one, again, this is happening in real time, but as you know, the financing markets go through phases. So we went through a phase post-crisis where rates were going down, available liquidity was going up and terms were easing. And then we had a phase where things were tightening up a little bit, but still available. And now it's real time, and I can't really say where things will settle out over the next couple of weeks and few months. August and the turmoil has really started in the last kind of couple weeks, so it's hard to say. But I would just point to the conundrum that we always have, which is when equity prices are really high and financing is really available versus when equity prices are lower and financing is more challenging, and you just have to look to optimize in that. And so from our point of view, you could work through the math that shows traditional buyouts are obviously going to be much harder and financing is more difficult, but there are also the places in which we search for opportunities and, in many cases, require lower leverage. If anything, the opportunities for return are going up. And then, given what's happening in the environment, there's probably going to be more stress and distrust available.

And so again, as long as the environment stays this way for a period of time, then we feel confident we'll be able to put money to work at returns in which we've seen over time. And again, I know I sound like a broken record, but if I just point to the 21-year history, we're not necessarily in a cycle that we haven't seen before. And these are the times where I think that we can find ways to put money to work creatively. And the other theme that I was trying to get to in our -- in the script was that as we build out our global platform, we're now having access to a larger number of opportunities that maybe we've not have seen in the past, whether it's in India or Europe or other places.

Michael Roger Carrier
Deutsche Bank AG, Research Division

Okay, that's helpful. And then just on Page 13, under the Capital Markets section of that table, just had a question. In that distribution redemption line, do you have any breakout in terms of what was more of a distribution versus redemption, just so we can kind of get like a net flow number? And then maybe -- well go ahead if you can -- if you have that.

Eugene Donnelly
Senior Adviser

That is not something we have historically disclosed.

Michael Roger Carrier
Deutsche Bank AG, Research Division

Okay, okay. And then just last one. In the future, I don't know if this is something that you guys are looking at, but it's possible, when you guys report the results, either putting some type of tax information in there or reporting like an ENI per share. Just either of those would be more helpful, just so it's easily to compare to, I think, how most people are looking at the business and the results.

Eugene Donnelly
Senior Adviser

Those are great suggestions, and I think stay tuned. We just went public. I think the feedback is great, and we are considering modifying our disclosures prospectively.

Operator

Your next question comes from William Katz of Citi.

Neil Stratton

This is actually Neil Stratton filling in for Bill. Just coming back to the fundraising again. Have you seen any change in the economics between the GPs and LPs? And secondly, regarding the strategic accounts that you've mentioned, how should we be thinking about fees and profitability there?

Marc Adam Spilker
Former Senior Advisor

Yes, good question. This comes up all time. I would say, in general, we're not seeing a lot of change in the fees, and it's obviously, situational. But in general, we have not seen a lot of change in fees. And on the strategic accounts, as we've explained in the past, for large amounts of longer-term capital that we can invest across the platform, in general, those do come with lower fees. But again, that's much -- it's a differentiated strategy, and that's something that we think is accretive, both to our LPs and to Apollo.

Operator

This concludes today's question-and-answer session. At this time, I would like to turn the call back over to Marc Spilker for closing remarks.

Marc Adam Spilker
Former Senior Advisor

I know everyone's busy, and thank you all for joining us.

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