S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

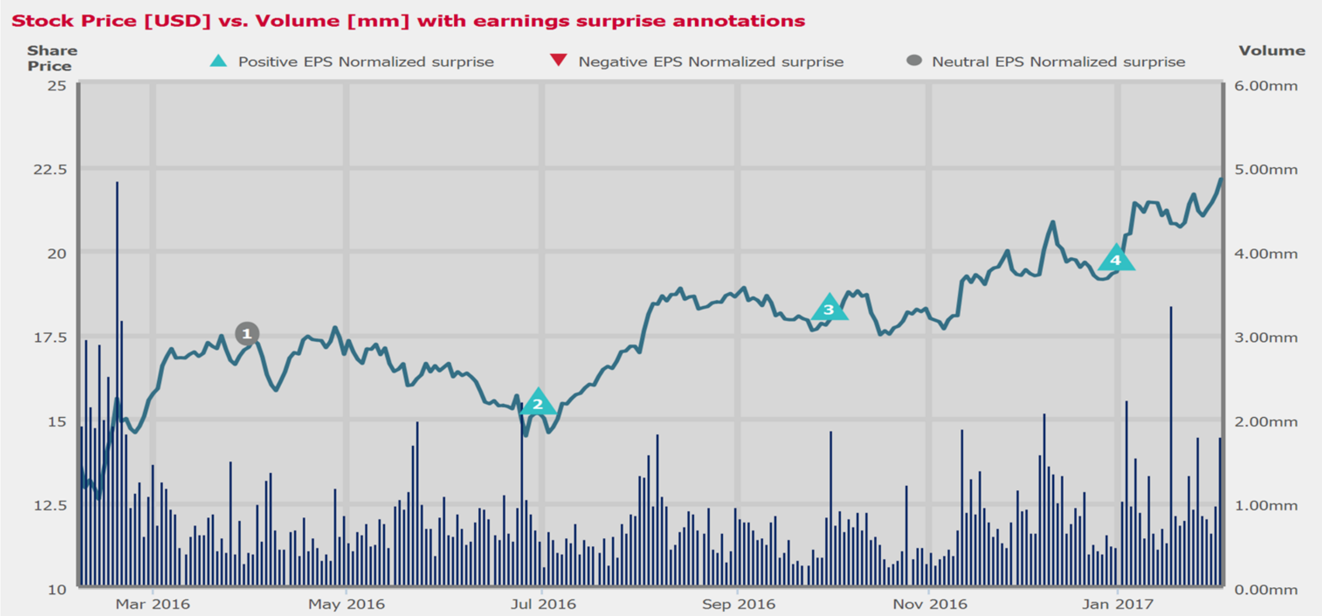
FQ1 2017 Earnings Call Transcripts

Friday, April 28, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.64	0.82	28.12	0.54	2.34	2.74
Revenue (mm)	550.60	626.13	13.72	510.72	2200.89	2467.39

Currency: USD
Consensus as of Apr-28-2017 2:55 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	0.04	(0.18)	NM
FQ2 2016	0.20	0.98	1 390.00 %
FQ3 2016	0.46	0.58	2 26.09 %
FQ4 2016	0.80	0.98	3 22.50 %

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2017 First 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

Great. Thanks, operator. Welcome to our first quarter 2017 earnings call, and thanks for joining us. Joining me this morning are; Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly our Chief Financial Officer. As a reminder, this call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We'll be discussing certain non-GAAP measures on this call, which management believes are relevant to assess the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our earnings presentation, which is available on the Apollo website. Earlier this morning, we reported non-GAAP economic net income of $0.82 per share for the first quarter ended March 31, 2017. Apollo also reported distributable earnings to common and equivalent holders of $0.57 per share driving a cash distribution of $0.49 per Class A shares.

If you have any questions about the information provided within the earnings presentation or on this call, please feel free to follow up with me or Noah Gunn. With that, I'd like turn the call over to Josh Harris, Co-Founder and Senior Managing Director of Apollo Global Management.

Joshua J. Harris
Co-Founder, Senior MD & Director

Thanks, Gary, and thanks, to you all for your continued interest in Apollo. As we reflect this morning on the momentum in our business, we wanted to share our perspectives on a few significant trends: first, we have experienced significant growth in the most stable and predictable earnings stream of our business. Over the last 12 months, we generated $1.38 of fee related earnings or FRE per share, nearly a 3-fold increase from just 5 years ago. Our growth in FRE has been driven by the increasing scale of our fee generating assets and both metrics have grown at a compound annual rate of more than 20% during the last 5 years. Asset growth has been augmented by an ongoing focus on efficiency and cost discipline, which has resulted in significant operating leverage and margin expansion across our platform. Second, following a year of record deployment in [2016], totaling $16 billion, we are continuing to find opportunities to put capital to work despite the high valuation and low rate environment that exist, by leveraging our deep industry expertise and our direct origination capabilities in credit. Third, with respect to private equity, we are beginning to see early signs of a realization cycle, which is paving the way towards a more balanced mix between harvesting and deployment. And finally, we continue to strengthen our balance sheet, which is not only an important source of liquidity but also increasingly, a significant contributor to our overall financial performance.

Moving to the specifics of the quarter, I'd like to begin with our investment performance. We pride ourselves on delivering high risk-adjusted returns to our investors and once again, the funds we managed generated positive results across all segments for the quarter. In private equity, the healthy portfolio appreciation of 8%, was driven by 7% appreciation in private portfolio company holdings, and a 10% appreciation in public portfolio company holdings. More specifically, [Fund A] continued to display positive momentum appreciating by 7.5% for the quarter and 29% over the last 12 months. Bringing the gross and net IRRs to 27% and 16% respectively, highlighting that this relatively young fund is off to an excellent start. In Credit, all major product categories posted positive performance resulting in total gross return of approximately 1.9% for the period. In Real Estate, our U.S. equity funds appreciated 3.8% and continue to perform well with the net IRRs in the mid-teens.

Turning to asset growth. We continue to benefit from numerous secular tailwinds among the investor community, including: the search for yield, the relationship consolidation towards the most successful managers, and the migration away from traditional active equity and fixed-income strategies, to a more barbelled approach, including passive strategies and alternative strategies. This backdrop is serving us well as we drive the business forward through organic fundraising efforts as well as our strategic capital initiatives, which accumulate permanent or long-dated capital outside of the traditional fund construct. It is worth noting that these strategic capital initiatives meaningfully differentiate Apollo from other asset managers. Over the past 12 months, our organic fundraising and strategic initiatives generated a total of $35 billion of gross inflows across the platform including more than $5 billion in the first quarter. This is setting us on a path to exceed the $200 billion mark of total assets under management in the very near future. The quarter's activity was driven by nearly $3 billion of inflows from strategic capital initiatives, which included nearly $2 billion of net new assets from Athene, as their business continues to grow. Earlier this month, Athene received a ratings upgrade to A from A.M. Best, another milestone which we believe will enhance the company's multichannel distribution growth strategy.

Away from Athene, there was more than $1 billion of inflows related to our newer business initiative, Apollo Asset Management Europe, or AAME, resulting from the onboarding of new assets from the balance sheet of an existing portfolio company. Subsequent to quarter end, you may have also seen that an entity named AGER, announced a EUR 2.2 billion capital raise that was primarily sourced through Apollo's strong network of investor relationships. AGER is a strategic platform established by Apollo and Athene to acquire or reinsure blocks of insurance business in the German and broader European life insurance market, where we believe that there is a large need for capital. Athene and Apollo will be minority investors in AGER and long term strategic partners. Similar to Athene, an affiliate of Apollo, AAME, will act as advisor with respect to AGER's investment portfolio. This new business venture is in the early stages and we are optimistic about its growth potential over time. As it relates to inflows from organic fundraising efforts, the quarter's primary activity included a follow-on closing from our third European Principal Finance Fund, bringing total commitments to $2.7 billion at the end of March. And since then we had a $400 million closing in April, bringing the fund over the $3 billion mark. We continue to believe the fund will meet or exceed the size of its predecessor. There's also more than $1 billion raised across a variety of liquid performing credit strategies, the most notable of which was Total Return. Total Return is a great example of how we can harness the power of our integrated platform to create a differentiated investment solution to help our -- to help fund our -- fund investors in their search for yield. As you may recall, this unconstrained credit strategy allows us to navigate the opportunity set across the liquid and performing spectrum of our platform. Total Return recently reached its 3-year anniversary, a key milestone for the consultant channel and the track record to date is strong. At the end of March, assets in Total Return were approximately $2.3 billion, and we're working on a healthy pipeline of new commitments.

As we think about the outlook for fundraising and asset growth more broadly, we continue to believe that our ninth flagship private equity fund, currently in the market, will be a meaningful contributor. We now expect a significant closing for that fund to occur before the end of the second quarter. Since Fund VIII still has adequate dry powder to sustain continued investment activity, we currently expect Fund IX will commence its investment period and its turn-on fees by year end or shortly thereafter.

This point leads me to the next area I'd like to discuss, which is investing and harvesting. The first quarter's results illustrate that our team continues to successfully identify value-oriented opportunities, while maintaining our investment discipline across businesses. In private equity, the $1.6 billion deployed during the quarter was primarily driven by 2 transactions: the [take private] acquisition of Apollo Education Group and the sizable acquisition by Chisholm Oil and Gas, which is an energy platform in Oklahoma. The team remains active with a number of potential opportunities in the pipeline. Fund VIII has committed 71% of its capital to date, and we estimate the fund has approximately $3 billion remaining for new commitments. Over the past couple of years, it is clear that our private equity team has been much more active investing capital rather than harvesting the portfolios, resulting in a 2:1 ratio in favor of deployment. But we are beginning to see the signs of a more balanced mix of portfolio activity. There was nearly $1 billion of gross proceeds realized from private equity during the quarter, which was driven by the dividend recap transactions at Verallia, ADT and Vectra, given favorable financing markets. We're encouraged by the early monetization opportunities and returns we are seeing from Fund VIII, given that it is a young and maturing portfolio. And we believe a path to increasing realizations and cash carry is on the horizon.

Turning to credit. While the potential for rising interest rates could provide some pockets of dislocation, rates remain near historic lows, spreads are tight and the market is full of liquidity. A recipe which is leading our team to be cautious. However, we continue to find attractive situations, where we believe we can leverage some of our competitive strengths such as speed, scale, industry expertise and our integrated platform. Additionally, we made a strategic decision a few years ago to build what has become a sizable direct origination capability, providing us with the flexibility to pivot between broadly syndicated credit when value is more readily available in the market and directly originated non-cusip, non-traded credit when value is scarce. We believe that this ability to toggle towards opportunity is increasingly important in an extended credit cycle. One recent example of our origination strength is the $800 million debtor-in-possession financing to support Westinghouse Electric Company. Westinghouse is a longstanding American franchise with 11,000 employees. Its nuclear fuel technology helps generate roughly 10% of all of electricity in the United States. While Westinghouse and its advisors had numerous alternative proposals, Apollo was selected because of our funds' ability to decisively provide a creative [analytic] solution [amid] a complicated restructuring process. The successful execution of this transaction was made possible by our ability to maneuver a complicated bankruptcy process, as well as the scale of our funds' capital.

Turning to real estate for a moment. We are excited to announce that Joe Azelby, will be joining Apollo, starting next Monday, as Global Head of Real Assets. Joe has more than 3 decades of experience, most recently at JP Morgan, where he managed a multifaceted real estate business. Joe will oversee our existing real estate debt and equity strategies and will work closely with our team to pursue complementary growth opportunities within the real assets arena more broadly.

With respect to our financial profile, our balance sheet today is strong and with solid investment performance in our funds and [upside creative and] strategic investments like Athene, it is only getting stronger. At quarter end, the balance sheet comprised more than $5 per share of value, which is more than double the level from just 12 months ago. This growth was primarily driven by the strong appreciation in the value of Athene, as well as significant increase in the value of our net carried interest receivable, which is at nearly $2 per share at quarter end. And 4x [our cyclical] low [were] approximately $0.50 per share just a year ago. In addition, we have $1.1 billion of cash and an additional $500 million of undrawn revolver, providing us with ample liquidity. Our cash balance reflects the issuance of our first perpetual preferred stock security, which occurred during the quarter. The transaction was well received with gross proceeds of $275 million priced at [6 and 3A's]. We were pleased by the outcome as it allowed us to diversify our capital structure with permanent financing at an attractive rate. With this enhanced flexibility, we continue to pursue strategic capital initiatives, evaluate potential M&A transactions and fund other growth opportunities.

In closing, I'd like to convey our optimism about the future of our business. We are positioned as a leading global alternative investment management franchise, which is driven by a talented and growing team. We are maintaining our investment discipline to achieve best-in-class returns. We continue to expand the capabilities of our platform, which will ultimately benefit the investors in our funds and strategic capital platforms, as well as our shareholders. And now I would like to turn it over to Martin to walk through our financial results in more detail. Martin?

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning again, everyone. Our strong first quarter results capped a 12-month period of significant earnings growth. Total economic net income of $1.4 billion for the 12-month period, ending March 2017, was more than 6x the amount of the preceding 12-month period, ending March 2016. During that time, we delivered strong investment performance across all segments resulting in 60% growth in our base of carry generating AUM. We grew fee-related earnings significantly and we received meaningful contributions from our balance sheet investments. It is clear that the breadth and scale of our platform continues to expand, as we grew our total asset base of assets under management by 14% year-over-year to $197 billion, marching closer to our previously stated longer-term goal of $250 billion to $300 billion.

Focusing on the financial performance of the first quarter, we generated total ENI of $332 million or $0.82 per share. Pretax, our economic income was $390 million or $0.97 per share, driven by the following key components: FRE contributed $134 million or $0.33 per share, private equity net carry contributed $189 million or $0.47 per share, including $0.24 from Fund VIII, Athene contributed $57 million or $0.14 per share between our balance sheet investment and carry arrangements. And the balance sheet ex-Athene contributed $34 million or $0.08 per share.

Starting with FRE, the $134 million or $0.33 per share for the first quarter, was up slightly quarter-over-quarter and up meaningfully year-over-year, due to continued growth in management fees and cost discipline. Included within FRE this quarter, is a nonrecurring $17.5 million insurance recovery related to a previously disclosed item that reduced FRE in a prior period.

Looking at bit farther out, we would expect a [step] function of FRE growth to occur, when our next flagship private equity fund commences its investment period and turns on fees, as Josh mentioned, likely by the end of the year or shortly thereafter. Although we would expect to incur fees associated with fundraising in the second and third quarter. In terms of performance fee and balance sheet-related income, we earned approximately $250 million of net carry and investment-related income during the quarter. The results for the quarter were driven by 2 primary factors: one, positive investment performance across our businesses, particularly private activity, which drove net carry income of approximately $189 million; and two, appreciation in the value of Athene, which combined -- which produced combined investment and carry income of approximately $57 million.

In private equity, carry income earned in the quarter was broad-based, as all meaningful funds posted gains and with Fund VIII leading the way. In credit, carry income was also broad-based with all 3 fund categories contributing, although in lower amounts than prior quarters given benign conditions in the credit markets.

In real estate, carry income was driven by both of the U.S. equity funds, which continue to perform well.

Turning to Athene. The fair value increased by approximately 5% from our valuation at the end of the fourth quarter. The quarter-over-quarter increase in valuation was primarily driven by stock price appreciation and we also modesty reduced the liquidity discount in our valuation. The increase in the fair value of Athene during the quarter resulted in a $39 million unrealized gain within other income, as well as $17 million of net carried interest income from AAA and related accounts, driving the aggregate contribution to fourth quarter ENI of $0.14 per share. Regarding our cash distribution, the $0.49 per Class A share we declared today for the first quarter was driven by 3 primary factors: one, the relative cash flow stability of our fee-related earnings; two, realized net carried related to the dividend recap transactions Josh mentioned earlier. In the first quarter, Fund VIII generated $36 million or $0.09 per share of cash carry; and three, realized net carry driven by the crystallization of a portion of the AAA carry receivable, in conjunction with the secondary offering completed by Athene in late March. We would expect the remaining net carry receivable at AAA, which at the end of March was $145 million and is subject to change based on the valuation of Athene, to be fully monetized over the next 12 months as additional AAA shares are [unlocked].

Our payout ratio for the first quarter was a bit lower than recent quarters because we retained the insurance recovery. Before we open up the line for questions, I would just like the flag a couple of new disclosures within our earnings presentation that you may find helpful as you analyze our business. The first is a new page of supplemental information on our private equity business which provides additional transparency around the composition of the current portfolio and offers insights into the relative maturity and valuation of the primary funds driving economic and distributable carry over time.

The second disclosure is a new line within our profit share expense, which identifies realized profit share compensation that is paid in equity instead of cash. We've talked before about our approach of paying Investment professionals a portion of the carry they receive in shares subject to vesting. And for the first time, you're beginning to see the accounting for that activity in our financials. This is a policy that we're implementing across all our businesses. Going forward, you should still expect the long-run performance fee [indiscernible] to remain unchanged from the approximate level of 45%. With that, we will now turn the call back over to the operator and open the line for any of your questions.

Question and Answer

Operator

[Operator Instructions] Our first question come from the line of Bill Katz of Citigroup.

William R Katz
Citigroup Inc, Research Division

I wanted to give it a start on, Josh, maybe you talked about [ERE], can you flesh it out a little bit, maybe talk about the total addressable market that you could foresee for that business. And then maybe the flow back of economics that would be there for [indiscernible]. I presume you are inferring [to asset allocation] as well as an advisory fee? I'm sort of wondering if I am thinking about that correctly?

Joshua J. Harris
Co-Founder, Senior MD & Director

You broke up there, you're saying AAME? Is that what you're asking about?

William R Katz
Citigroup Inc, Research Division

Yes.

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, I mean there -- look, I think, obviously, we have raised capital and we are looking to deploy that capital with the -- buying books of insurance liabilities in Europe in much the way that we did in the U.S. We haven't really -- certainly, Apollo through its AAME, through our Asset Management arm will be managing a portion of those assets. We haven't really disclosed yet, exactly the economics of all that and so we'll probably hesitate but if you think about and it's not going to be -- if you think about conceptually what we did with Athene, that's probably a pretty good way to think about it. Although, obviously, they are totally different markets and how all of the economics will work will be different and the margins will be lower.

Gary M. Stein
Head of Corporate Communications

Yes, and just that, we know there's a lot of acronyms and names that start with A. So AGER, A-G-E-R which is Athene Germany, AGER, that's the entity that raised the capital EUR 2.2 billion of initial equity capital, that can be levered up meaningfully in the European markets. And as Josh mentioned, AAME will be the investment advisor for the assets within that AGER entity.

Joshua J. Harris
Co-Founder, Senior MD & Director

So if you think of AGER as Athene and you think of AAME as AAM and we apologize for how confusing it is, it confuses even us, we're open to suggestions. That's the way that we've set it up so AAME is Europe, AAME. Anyway, I don't know if that gives you about as much color as we can give you, I think at this point.

Gary M. Stein
Head of Corporate Communications

And I'd just say it's early stages for AGER, they're just raising the capital but now well-capitalized to go out and look for opportunities to acquire books of business or reinsure business.

Joshua J. Harris
Co-Founder, Senior MD & Director

But if you think of $2 billion of equity capital, I think, insurance companies can be levered and that gives you a lot of buying power.

William R Katz
Citigroup Inc, Research Division

Understood. And then my follow-up question. Josh, you also spent some time talking about the strength of your balance sheet. Just tell me a little bit about how you think about that from a [indiscernible] basis versus through acquisitions, particularly since you recently brought on Gary Parr are onto your leadership team as well?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes. I would say that obviously, we are completely flexible to all of that depending on what the best value from our point of view is. Clearly, doing acquisitions, we have done a relatively -- Stone Tower was really successful, an acquisition called Gulf Stream was really successful. We've had some other misses but we sort of bring the same value discipline around acquisitions as we do in our private equity business. So the stars and moon aligning and getting something that is strategic for us and at the same time priced well. They come few and far between but we are clearly looking and certainly, Gary Parr will be adding to that capability. But we're also finding relative to these strategic capital platforms, whether it be Athene or Athene Europe, AGER or any number of other ideas that we have, the mid-cap, which you also know about, like that these require some amount of capital contribution from us. And so the capital will also be used for that and then there's also the ability to organically bring in teams. So I think all of those things are on the table and we're looking at a lots of different things, and certainly Gary adds -- that was one of the significant reasons we did bring in Gary and he adds a lot to that capability.

Operator

Our next question come from the line of Robert Lee of KBW.

Robert Andrew Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Can you may be -- just interested in maybe adding some color on fundraising for Fund IX. At this point, sense if you're seeing kind of the mix of LP, does it predominately kind of existing LPs resigning or are you seeing kind of broadening of your LP investor base on Fund IX?

Joshua J. Harris
Co-Founder, Senior MD & Director

I think, here's what I would do, because I can't -- unfortunately, I don't want to comment specifically, on Fund IX but I can comment more generally around fundraising, which is to say the following. Certainly, there's a broadening globalization of the investor base. But what we're finding is that all of our -- and certainly we are seeing consolidation at the investor base with existing relationships and so we are benefiting from those trends. So we are finding our -- pretty much all of our LPs getting larger with us, or the vast majority, with few exceptions. But at the same time certainly in Asia, the Middle East, Europe even, we're certainly seeing the globalization, so if you look at the overall percentage from North America, it's fallen a bit relative -- even though it's grown on an absolute basis, it's fallen a bit over the last 5 years and it would sort of be probably under 50% at this point. Just a shy under 50%. And you'd see regional growth in all of those different regions. I would say we are finding in terms of institutional versus retail, we are seeing so much -- retail is growing in absolute dollars but it remains between 10% and 15% of our overall business excluding Athene, and you can, I don't know what to characterize that, that could be characterized as retail or institution. But we are finding that truthfully, there's so much demand from our institutional clients that we're not -- we have so much capital that we are limiting how much capital that we make available to retail, basically. In a sense that we are trying to satisfy our institutional [base] and find investment opportunities for that. That may make us a little bit different than others, so we are still growing in absolute dollars but maybe not as fast as our overall platform. So that would be like -- I don't know if that's enough color, but that's sort of the color that I would offer.

Robert Andrew Lee
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And then maybe as a follow-up, in terms of thinking about current and future deployment, I mean obviously, you've been active in Europe, but one of the things it doesn't feel like we hear too much about, at least maybe relative to some of your peers is, deployment or investment activity for you guys in Asia. And I'm understanding your funds can kind of go anywhere, but do you feel like you have the kind of Asian footprint you would like or is that a area of focus where you think you need to kind of put more emphasis?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes. So less than 3% of our overall investing is outside of Europe and the U.S, North America. And so it is for sure. Now we do have an office in Hong Kong and Singapore and we have people in Australia, but truthfully -- We have a footprint there, in Mumbai, actually, in Shanghai, but we are not finding the risk return to be as attractive as we're finding in our core markets. So for us, if we're going to go into a market that is foreign to us and have to pay a higher price and have to deal with lack of transparency in the financial statements and possibly -- and be in markets that are minority, in many cases they don't want to sell control. It has not been a deep value opportunity market. If you look at what most others are doing in Asia, it's been a lot more relative to growth equity at much higher prices. And so that's not really what we do. And so we continue to look in Asia, but we continue to have a presence in Asia, it's not that we don't do anything in Asia. Certainly we just did a real estate transaction in Thailand, but we haven't seen the opportunities. And that is different than -- and we are finding much more opportunity in our core market and it probably has to do with our differentiated style, we just are not prepared to pay high prices and so that limits what we'll do.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Josh, maybe first on your commentary, just on the shifting from deployment to realizations. I know trying to time or gauge realization activity is tough for you guys and us but when I think about maybe Fund VIII, and I look at the performance versus the seasoning, meaning it's still relatively young. How does that compare to maybe some of the past funds when we start to think about the potential that we could see in cash realizations over the next 2 to 3 years?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes. I think obviously, we have the new disclosure- you can see it- that the average life of our investment is 1.1 years. Clearly, we made a lot of money in the fund on the buy. So as we've mentioned to you before, we have acquired the fund for between 5x and 6x cash flow which is well south, like 5 multiples south of the private equity averages and about that same amount south of the public markets. If you were to express the public markets in terms of EBITDA multiple. So there are 3 ways to make money in private equity: there's buying right, there's selling right and there's adding value along the way.

Much of what we're doing in the portfolio -- So a lot of our money -- a bunch of the money was made on the buy and now we are busy adding value and in many cases we are building platforms, à la ADT, or we're turning around companies, à la The Fresh Market, or we're repositioning and divesting certain things, à la Rackspace. Many of these companies have been public and getting out of certain businesses and emphasizing other businesses, and so to -- The ultimate exit sometimes does require some -- it does require a bit of seasoning. And you need to not only -- buying right is great but then you need to do the active management of it. So I think it is still early. Having said that, we are incredibly focused on monetizing the portfolio because to a large extent, we believe that we are heading into the ninth year of an economic recovery, financing markets are ebullient, equity markets are aggressively pricing things in most cases, and so we are doing everything we can. A lot of what we've been doing in the early part of the fund is doing these dividend recaps, right, which allow you, in many cases, the fact that you bought right you've done some stuff and [DOW] multiples have come down, the leverage levels have come down, portfolio is much less leveraged than it appears. I want to say it's mid-3 multiple of the EBITDA. So that gives you some room to releverage it.

And so we are going to do our best to pull as much money out of the portfolio as we can, as quickly as possible. But to your point, it is still young and a year is probably too early. And so that's what I would say to it. So I don't think we're in full swing yet by any means, but we are also cognizant of the environment and we're going to lean into returning capital to our investors. It doesn't really make sense to compare it back to -- I mean unfortunately, to compare it back to VII or VIII or VI. I mean VII literally was 60% distressed for control. This is 5% distressed for control. So this portfolio has been put together in a wholly different market in distress for control, you can buy debt at one price and then if the market is [indiscernible] just sell it. Here, a lot of what we are doing is managing and improving companies and so your ability to move out of it so quickly is different.

Martin Kelly
Chief Financial Officer

Yes, and then Mike, maybe just a little bit of context around the potential for Fund VIII relative to the prior funds, appreciating that their construction is different. Fund VI created, which was a $10 billion fund, created about 270 of net carry for APO after profit share. Fund VII, which was a $14.5 billion fund created about [almost] 40, so if we can create a double on Fund VIII, then that's around $5 of net cash carry to come out over the next number of years.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Got it. Okay, that makes sense.

Joshua J. Harris
Co-Founder, Senior MD & Director

I mean, I would be really surprised, I mean our average multiple is about 2.4x, across all of our funds and just knowing the portfolio of Fund VIII and I'm trying to be measured on the call, I would be -- I think 2 is a low estimate, I mean obviously, if the recession hits or whatever, it might take us longer, but we're well on our way to that. And we have seen in Fund V, we have seen it be as high as 3. So that -- the range really -- when you look at the range on our funds, the funds that were the toughest funds are about 2, so Fund VI which is pre-financial crisis before the EBITDA just took a huge hit, that was just about 2, and the funds that have done well are approached 3 or even above 3. So that's how you get to the 2.4x. So Martin's giving you appropriately, I think, the more conservative estimate.

Operator

Our next question come from the line of Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

In terms of your other closing vehicles, if you could, could you talk about how they're positioned in terms of raising new capital, is the raising capital a likelihood or a possibility over the next 12 months or so? And I was particularly interested in kind of where MidCap stands and I assume you can't comment on a AINV, but if you are able to, I would be interested on your thoughts on the AINV, as well?

Joshua J. Harris
Co-Founder, Senior MD & Director

I mean, let's start with MidCap. MidCap, we raise money when we need to raise money and obviously, the middle-market origination strategy is working and MidCap is doing quite well and our investors are quite happy and we're up to about $7 billion of assets. And we have a capacity to just with our existing equity and capital base to put another $2 billion or $3 billion of assets on the books, which is how ultimately the fees [indiscernible] Flow based on assets. And I think that we'll raise -- I think that I would say that given the success of Athene, and I think this is validated by the recent fundraise with AGER, and people are happy, our investors are happy with these permanent capital -- these strategic capital platforms. So when we show up with an idea, or when we show up and say okay, we need to raise more capital for our existing platforms, we've been met with a good reception because we have done well by our investors. So we would expect that to continue so when for example, MidCap needs more capital, I would expect that we would be able to get more capital. In terms of AINV, which is a public company, I would shy away from speaking for that company publicly. I'm looking at Gary to see if he has anything to add, but our general policy is not to really interfere or get in front of the disclosure of other public companies but certainly, you know we certainly hope that their -- and we work with them to disclose things appropriately.

Gary M. Stein
Head of Corporate Communications

I think that's right. I don't think we'd want to speak on behalf of another public vehicle.

Joshua J. Harris
Co-Founder, Senior MD & Director

And you know our other public vehicles are all out there. They are smaller but certainly, our commercial real estate vehicle, which is the biggest of those, has been successful at raising capital over time.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. Great, thank you. And Athene is -- continues to do exceptionally well, so this is sort of a question on where things could go wrong. Are there any capacity issues or size constraints for Apollo? So Athene is now at $73 billion, it's an acquisitive company, if it were to do another big deal, Athene could be at $100 billion for Apollo, in like a heartbeat. So are there any factors that would prevent or limit or inhibit the liability side for Apollo relative to Athene, if Athene keeps growing as has been the case?

Joshua J. Harris
Co-Founder, Senior MD & Director

So I mean, remember the relation -- the answer is no. Just remember the relationship between Athene and Apollo. Athene is its own entity, it's public. Certainly, we own when all is said and done, between 10% and 15% of Athene, so we're a large equity holder of Athene. And we also receive fees from Athene for managing the assets of Athene. And so from our point of view, as an interested shareholder certainly, sensible growth from Athene's point of view and we think they have a great-- Jim Belardi and the management team there are quite good. It's positive -- as a shareholder it's also positive to the extent that we continue to manage a greater pool of assets for them. So from our point of view, there's no real risk or concern about the size of Athene. Obviously, Athene certainly, has to do risk manage and do all those things that a good -- and match assets and liabilities -- and do all the good things that other insurance companies do and we certainly from our vantage point are supportive and think that, that's going on right now.

Gary M. Stein
Head of Corporate Communications

Thanks. Before we take the next question, I just want to say we still have a fairly lengthy queue, so if we could ask the next folks asking questions to just limit it up to one question, that would be great. Prepared remarks were a bit longer than normal just because we had a lot we wanted to share. Thanks.

Operator

Our next question comes from the line of Devin Ryan of JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Just a quick one here within credit, fee generating AUM slipped a little bit in the quarter, I think it was down $5.5 billion but it also looks like $7 billion of AUM is just 250 basis points away from carry generating, which also looks like it came out of liquids in performing. So I'd just like a little more detail on the downtick in the quarter and then any color on your outlook, for I guess, that business specifically, maybe ability to get that back into the green?

Martin Kelly
Chief Financial Officer

Sure Devin, it's Martin. It was a drop in carry [jams]. It's almost exclusively attributable to 1 fund, which we call the credit fund, it's a performing 1 fund and its structured is such that it has an annual resale on the incentive, which means it has to earn its [press] every year. And so in -- which it did last year, and so it was sort of in carry at year end. It came up just shy of a quarter of a full year [indiscernible] for Q1. So it slipped out of carry. It has clearly the potential to step back in, but it has to sort of earn half a year's of [indiscernible] by the end of Q2 to do so.

Joshua J. Harris
Co-Founder, Senior MD & Director

But it's very close. I mean literally, it's just shy of its hurdle, and it can easily go -- tell us what markets are going to do in Q2, Q3 and Q4.

Operator

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

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

I guess, the realized carry, the $155 million in private equity was more than we were looking for, a nice surprise. But I guess a couple of questions, one, you said the out of Fund VIII, it was mainly dividend recaps and I guess you touched on it a bit, but is there more potential in Fund VIII, to generate through dividend recaps or from here should we be looking mainly to sales?

Joshua J. Harris
Co-Founder, Senior MD & Director

I think it's all of the above. I don't think we are out of the capacity. I mean literally, if you think about it, you are managing to an overall leverage level and so [as] the portfolio's EBITDA is going up and debt is being repaid, you regenerate the ability to dividend recaps. Plus, this was only -- there's like 3 or 4 companies out of, I don't know 25, so we are not even close. But, look, I think as time wears on, you will see certainly us doing IPOs and selling more things, but I think that we're certainly not out of capacity.

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

Okay. And just related the $20 million of realized carry out of Fund VII, I thought that was still in escrow and that it wasn't eligible for generating carry?

Martin Kelly
Chief Financial Officer

Yes, so that relates to tax distributions that we received in the first quarter related to Fund VII activity last year. So [indiscernible] funds there's sort of an annual tax calculation that we do [and] cash is paid in the first quarter.

Operator

Our next question come from the line of Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Question for you guys around the credit business and just kind of the carry that's sitting there right now. So roughly $400 million, I guess, of growth carry, the bulk of that is sitting in drawdown funds. I guess, given your comments around where we are in the credit cycle in general of being likely more of net seller than a net buyer, how should we think about I guess, the pace of monetization of the carry specifically, from the credit side of the business, the private equity side, I guess, is a little bit more clear?

Martin Kelly
Chief Financial Officer

Yes. I will take a crack at it. It's hard to frame Alex, to be honest. In the ground today in credit, we have $28 billion of money that's in carry and associated with that is the $400 million growth carry receivable you referenced. In addition to that total, there's a trajectory around how and when that gets monetized. In addition to that, there's dry powder of about 10 and we're fundraising and so that will be on top of that. If you look back in the last couple of years, the realized credit carry has been quite volatile, last year was $150 million. In the first quarter we clipped about $20 million-odd. So I would say it's likely to be lower than last year, but it really depends on the market environment and putting money to work and raising new capital as much as it does monetizing that $400 million.

Operator

Our next question comes in the line of Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

What are your updated thoughts behind C-corp conversion and what would you need to see from tax reform in order to make the conversion?

Joshua J. Harris
Co-Founder, Senior MD & Director

We were just like smiling at each other because we knew we wouldn't get away without that one. Look, we are truthfully trying not to speculate, I mean obviously, the lower the corporate rate goes, obviously, the reason for this structure is to avoid double taxation and to allow for carried interest to flow to investors directly, which I guess is the same thing. The lower the corporate rate goes, the less effective this structure is, and you weigh it against the complexity of having the structure. So I think that certainly, if the tax -- Trump tax plan as we understand it in the public comes to fruition, certainly, we would be looking at very hard at that. But that's about all we can say at this point because it's highly speculative, what's going to happen and secondly, there's a lot of details that matter that aren't out there, right? So it's very speculative but certainly, the 15% rate is out there and that certainly makes us -- will make us look harder at the structure in and of itself.

Operator

Our next with income from the line of Chris Harris of Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

As it relates to the balance sheet, you guys mentioned the possibility for [EM] opportunities. What is your philosophy there and what kind of things could you guys potentially be looking at?

Joshua J. Harris
Co-Founder, Senior MD & Director

Our philosophy is we look at, I mean it's go back to your financial 101 class. We look at our cost to capital and then we look at whether an acquisition is accretive financially, and then we look at the strategic fit with our platform in terms of either things that we -- teams that we think we can back and create funding for and/or things that broaden -- will broaden our overall and be ancillary to our overall relationship with our existing investors. So for example, I think we said before that we are really small in real assets and real estate and that's an the area that would sense to add, certainly in credit. There are lots of different parts of credit which are ancillary to our business, where we could add. And then I would say the last thing I'd -- so that is sort of our philosophy how we approach it both financially and strategically, we have certainly been -- and as someone mentioned before, we brought in Gary Parr, hired Gary Parr. He now works with us and amongst other duties that he has run strategy. And we're taking hard look at a lot of different things. The only other thing I would mention is that, we generally shy away from cost-driven acquisitions, so in the investment world -- it's not that we don't try to get cost, but sort of buying something so that you can cut a lot of cost out of it. By and large, our assets are people. That doesn't tend to work that well, so philosophically, we are certainly going to look at opportunities where we can buy it well, but it adds accretively to revenue. And there's not a lot of overlap [in] cost reduction.

Operator

Our next question come from the line of Gerry O'Hara of Jeffries.

Gerald Edward O'Hara
Jefferies LLC, Research Division

Just circling back to AGRE [sic] [AGER] for a moment. Is that something that is -- it seems obviously, it's regional in nature but is that something that we could potentially expect to see for other European countries or areas in that area, just given the differentiation of strategies, rules, laws, what-have-you? And also perhaps, what you see is attractive in that particular market [indiscernible] and why maybe you kind of started there?

Joshua J. Harris
Co-Founder, Senior MD & Director

Sure. So first of all -- I'm not trying to be cute but it's AGER and the reason I'm correcting you is that AGRE is Apollo Real Estate. So we are trying to make it wildly confusing to everyone, including ourselves. But in terms of AGER, that's a pan-European platform. The reason that we named it AGER, was that we started with an acquisition that Athene made in Germany, and they contributed that German asset to the pool, we raised EUR 2.2 billion, we contributed that asset so we now have a company. But certainly they're going to look at all kinds of different things in Europe and it's a broad European platform. What makes that attractive is that, the rates in Europe are near 0 and very, very low and that's putting tremendous pressure on insurance companies that have originated liabilities where they promised their insurers a certain rate of return in the life insurance business. And so because rates have fallen, there's these legacy books of business that are very much hurting the profitability of the insurance companies and the capital ratios of the insurance companies in Europe and so they are looking for ways to raise capital and so we see it as an opportunity to buy things at very -- buy books of liabilities at very, very low rates that give us sustainable liabilities. And so there's a big restructuring going on in that industry that is providing an opportunity for us to in essence create some value.

Operator

Our next question comes from the line of Michael Cyprys of Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

Just wanted to come back to your points on the direct origination capabilities, you mentioned, Josh, as a differentiator. Just curious if you can elaborate on that a bit more just in terms of how you've been building out your direct origination capabilities in the U.S. and Europe? Any specifics you could share maybe, in terms of the size of the team today versus a couple of years ago? And just maybe you can talk a little bit about, how you are building that out differently than your peers? What's differentiated exactly?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes. So I would say that certainly through -- there's Apollo, and then there's related entities such as MidCap, that -- and so I would say that, Apollo and related entities, whether it be feet on the street in terms of originating middle-market loans, whether it be our ability to process structured credit and line up liability streams, like CLO liability, structured real estate credit, whether it be an aircraft finance lease team where we can buy aircraft and lease them back or provide leasing to -- so we have -- whether it be energy credit where we have built the capability to analyze different basins in terms of the geology and the actual natural resources themselves. Or whether it be in Europe, our capability of offering insurance -- products to insurance companies because of all of our knowledge and expertise in that area. We are and continue to be building out this ability to get out of the fire fight with the central banks in terms of 0 rates and the public markets being affected by that. And so when we look at the public markets of credit, it's really at very, very historic lows and so we are trying to create alpha. Our ability to -- life settlement, like our ability to buy insurance assets, life insurance policies. So we have all these platforms across our credit business that increasingly are specialized in nature and providing this capability and when you add up all of the origination capability there's both inside and outside Apollo, where we have perpetual management contracts, you're in the hundreds. So I think that it certainly is -- or greater than a 100. I think it certainly is an advantage and I think that we're going to continue to invest and look for opportunities to grow that.

Operator

Our final question comes from the line of Brian Bedell of Deutsche Bank.

Joshua J. Harris
Co-Founder, Senior MD & Director

Best question we've had all day. Yes, I think he dropped.

Operator

And that does conclude the Q&A session for today. I'll turn the floor back over to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and thanks, everybody, for joining us today. As I noted previously, if you have any follow-up questions, please feel free to circle back to Noah Gunn or me.

Joshua J. Harris
Co-Founder, Senior MD & Director

Thanks. Bye, bye.

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