S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

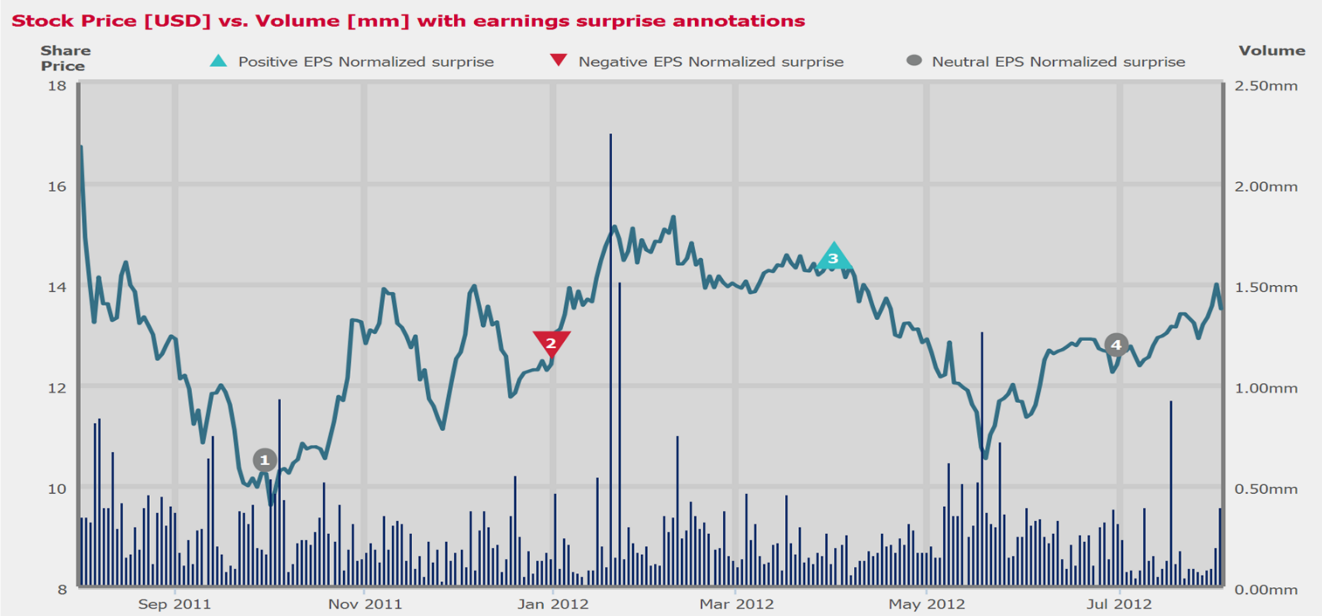
FQ3 2012 Earnings Call Transcripts

Friday, November 09, 2012 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.74	0.98	▲32.43	0.61	2.46	2.85
Revenue (mm)	624.03	712.37	▲14.16	561.59	2245.22	2659.59

Currency: USD
Consensus as of Nov-09-2012 2:21 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	(0.67)	(1.46)	NM
FQ4 2011	1.42	0.80	▼(43.66 %)
FQ1 2012	0.79	1.10	▲39.24 %
FQ2 2012	(0.11)	0.05	NM

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2012 Third Quarter Earnings Conference Call. [Operator Instructions] And following management's prepared remarks, the conference call will be opened up for questions. This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Martin Kelly, Chief Financial Officer.

Earlier this morning, we reported non-GAAP after-tax economic net income of $0.98 per share for the third quarter ended September 30, 2012 compared to a loss of $2.89 per share for the third quarter of 2011. For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $83 million for the third quarter of 2012 compared to a $467 million loss during the third quarter of 2011.

Total assets under management, or AUM, was $110 billion as of the end of September, and fee-generating AUM was $78 billion. We declared a cash distribution of $0.40 per share for the third quarter of 2012, which comprises a $0.07 regular distribution and $0.33 that was largely attributable to realizations from portfolio company and credit investment dispositions as well as interest and dividend income earned by our private equity and capital markets funds.

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

We will also be discussing certain non-GAAP measures on this call, such as economic net income and after-tax economic net income per share, which are reconciled to our GAAP net income or loss attributable to Class A shareholders and GAAP weighted average Class A shares outstanding. These reconciliations are included in our third quarter earnings press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. Please also refer to our most recent Form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to our business.

This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. If you have any questions about any information in the release or on this call, please feel free to follow up with me or Patrick Parmentier after the call.

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

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary, and welcome again, everyone, to our earnings call.

We're excited to walk through our strong financial results for the third quarter of 2012 and provide our current thoughts on how Apollo is positioned in today's market environment. Now that the elections are behind us, the current market will likely continue to face volatility and uncertainty with the ensuing so-called fiscal cliff in the U.S. coupled with ongoing secular changes taking place in Europe. In light of lower interest rate policies and other non-traditional monetary actions, we are seeing tensions between fundamentals and technicals, whereby liquidity-driven gains this year in equity and credit markets seem to be a bit ahead of fundamentals.

We continue to believe we'll generally see a slower-growth, muddle-through environment for the foreseeable future. Over the last few months, however, certain market sectors have shown a higher degree of optimism in this type of environment, and in certain situations, we have been able to capitalize on that optimism to generate realization for our fund investors. We believe this is a great example of our flexibility in adapting to changing market conditions and has led to a strong third quarter cash distribution of $0.40 per share, well above the $0.27 quarterly average that we mentioned on our prior earnings call.

During the past 2 years, when global markets have fluctuated, we have provided value to our shareholders by paying ongoing quarterly cash distributions while simultaneously growing the capabilities and scale of our investment platform. Over the last 12 months, we have declared $1.35 in cash distributions per share to our shareholders, which we believe is an industry-leading dividend yield based on our current stock price and demonstrates the value that we have been able to deliver to our shareholders in a volatile low-yield environment.

Our investment portfolio includes a significant amount of capital that we deployed at the bottom of the market cycle in 2008 and 2009. When market windows have opened, we have been able to move quickly to monetize certain investments. During the third quarter, this continued to take place as we generated our largest amount of realized carry so far in 2012.

Looking more specifically at private equity, over the past few months, IPO markets have become more active on a company-specific basis within certain industries, and, where possible, our funds portfolio companies have responded quickly, as evidenced by the recent IPOs of Realogy and Berry Plastics. Apollo's private equity funds continued to have several portfolio companies with registration statements on file in preparation for possible IPOs. For certain of our funds' portfolio company investments that are already publicly traded and past their respective lockup periods, we were able to execute on secondary sales and other exit strategies as a way of seeking monetizations when market windows were open and opportunistic for doing so. There were a few examples of this activity during the last few months, and we'll provide further financial details later on the call.

Opportunities for private sales also presented themselves during the quarter. Our funds closed on the sale of Hughes Telematics to Verizon and AMC to Wanda. And just a few weeks ago, an agreement to sell Smart & Final from Fund VI was signed.

On the capital deployment side within private equity, we continue to see a strong pipeline of potential transactions within the 9 core industries in which we specialize, and we believe that our funds will continue to maintain a normal deployment pace. During the third quarter, however, our private equity funds put less capital to work. As we've been saying, the nature of deal activity is generally lumpy and can significantly vary from quarter-to-quarter. For example, as you may recall, during the second quarter of this year, our funds deployed over $1.7 billion of private equity capital, which was approximately twice the quarterly average.

Regardless of the market environment, a cornerstone of our investment philosophy is to maintain our discipline as a contrarian, value-oriented investor. As a result, we continue to look to trade complexity and aggravation for a lower purchase price, whether through distressed or controlled situations, complex corporate carve-outs or other idiosyncratic opportunities that typically result in a lower purchase multiple relative to traditional buyouts.

Turning now to the performance of our private equity portfolio during the third quarter of 2012, the overall valuations of our private equity funds and the underlying investments appreciated on a combined basis by approximately 8%, which modestly outperformed the S&P during the same period. The aggregate revenues from our Fund VI and Fund VII portfolio companies were down slightly by an estimated 1% during the third quarter of 2012 compared to the second quarter of 2012, while EBITDA decreased by an estimated 3% on the same sequential basis.

For the trailing 12 months, we also saw modest top line and bottom line declines, with aggregate private equity portfolio revenues down by an estimated 1% and EBITDA down by an estimated 2% for the trailing 12 months ended September 2012 compared to the same period as of September 2011.

These revenue and EBITDA trends are consistent with what we spoke about on last quarter's earning call and the slower-growth, muddle-through environment I mentioned earlier. That said, the market's expectations for earnings growth are positive for next year. And while earnings seem to be stabilizing, we are a bit more cautious than the market's robust expectations.

I'd now like to move on to our Credit segment. You may have noticed that in connection with our third quarter results, we renamed this segment, which was previously referred to as Capital Markets. We believe that the Credit name is more reflective of the type of investments that we are managing for our clients in this business segment. Our Credit segment had more than $60 billion of total AUM at the end of September and contributed $195 million of ENI during the third quarter, or approximately 45% of the company's total pretax ENI. We're proud of these amounts, especially after considering that Apollo's credit segment had less than $20 billion of AUM 3 years ago. We believe that the rapid expansion of this segment is a result of our strong background in credit and our flexible investment approach, which has further enabled us to move quickly to serve clients' needs by filling voids of capital formation that have arisen in a shifting financial services landscape.

Looking now at fund-raising with our credit segment, the capital currently being raised includes managed accounts as institutional investors continue to seek tailored, solution-driven investment strategies across our credit platform that meet their individual risk/reward profiles. As we have noted previously, while large-scale, strategic mandates over $1 billion tend to be more episodic, we continue to have discussions regarding smaller mandates with both our existing client base and new potential investors.

Among our most recent additions in this category is a $200 million credit mandate from a large insurance company that we closed in September. Our second European non-performing loan fund, EPF II, has also had a meaningful impact on our organic capital raise in our Credit segment. We have had strong investor demand towards our fund-raising target of EUR 2.5 billion in total commitments for EPF II, with over EUR 500 million of that closed in October.

Also, in early October, we announced the pricing of ALM VII, a $722 million CLO which was the largest broadly syndicated CLO issued in the United States so far this year. This represents the third CLO that Apollo has priced this year, raising approximately $1.7 billion in aggregate and ranking us as one of the largest CLO managers with 26 CLOs totaling over $14.5 billion in AUM.

Turning to real estate-related credit. Our publicly traded residential mortgage REIT, AMTG, experienced significant growth in the third quarter. In September, AMTG announced the closing of our preferred public equity offering, which generated net proceeds of $167 million, bringing its total capital raised year-to-date in 2012 to $416 million. As of the end of September, AMTG had fee-paying AUM for Apollo of $537 million.

Our publicly traded commercial mortgage REIT, ARI, has also been active in the capital markets. Just a few weeks ago, ARI completed an underwritten public offering of common stock that generated net proceeds of $117 million, in addition to a preferred stock offering in August that raised net proceeds of $83 million, which together brought ARI's fee-related AUM for Apollo to $530 million. Combined, we're now managing $1.1 billion in equity across these 2 credit-oriented strategies.

While I already gave a number of highlights regarding fund-raising within our Credit segment, I wanted to mention that we expect to commence fund-raising efforts for Fund VIII soon. Also, within private equity, our first natural resources fund is expected to complete its fundraising this quarter, and through the end of September, we had just under $1 billion in total commitments.

Finally, in conjunction with a strategic partner based in India, approximately $250 million was committed for AION Capital Partners, which is a new fund focused on distressed investment opportunities in India.

We continue to believe that the secular changes taking place in the investment industry play to our strengths as a diversified alternative investment manager and will benefit our fund-raising efforts, as illustrated by the organic growth that we've seen at Apollo since becoming a public company. Furthermore, we believe with a low-yield environment, institutional investors will continue to increase their overall portfolio allocations to alternative investment strategies, particularly unconstrained investing and credit. We also believe LPs are consolidating relationships with large, branded scale firms like Apollo that have outstanding long-term investment track records.

I also briefly wanted to touch on a transaction that was completed less than 2 weeks ago between AP Alternative Assets, the publicly listed vehicle on Euronext Amsterdam, which many of you know as AAA, and Athene, which is the life insurance holding company created several years ago. We believe this transaction, in which AAA contributed substantially all of its investments to Athene in exchange for a combination of stock, cash and a short-term note, is beneficial to the shareholders of both AGM and Athene. In addition, we believe this transaction provides Athene with significant growth opportunities that should accrue to the benefit of AGM shareholders over time.

And before I finish, I'd like to highlight one other key aspect of our financial performance this year, which is the growing contribution of our Management Business to our total economic net income. We believe this illustrates the diversification, scale and operating leverage in our platform, which has been a significant area of focus for the senior management team at Apollo. Our top line Management Business revenues have been increasing at a steady pace, which is leading to higher margins and a higher contribution from the Management Business.

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

Martin Kelly
Chief Financial Officer

Thanks, Marc, and good morning, everyone.

To start off, I'd like to say that I'm delighted to be with you this morning for my first earnings call at Apollo, and I look forward to working with everyone going forward.

Today, I'd like to highlight a few details around this quarter's financial results before we move on to your questions.

Starting with our distribution, the $0.40 per share declared for the third quarter comprises 3 components: first, a $0.07 regular distribution; second, $0.10 from the recurring portion of our realized carry that stems from interest and dividend income and by the funds we manage; and third, the remaining $0.23 that is largely associated with one-time realizations from the dispositions of equity and debt investments in our funds, including the sales of 17.5 million shares of Lyondell and over 3 million shares of Charter Communications.

Last week, we also successfully sold an additional 20 million Lyondell shares that were held across multiple Apollo funds. This transaction is expected to have a meaningful impact on our fourth quarter distribution. Following this most recent sale, the funds we manage continue to hold a combined 134 million shares of Lyondell, including 83 million shares in Fund VII, 29 million shares in COF I and 16 million shares in Fund VI.

As our team continues to forecast business performance into 2013, and based on the current composition of our funds' investment portfolios, we think it's reasonable to expect a regular quarterly distribution of $0.07 plus another $0.05 to $0.10 from the recurring interest and dividend income generated by our funds. The realized carry associated with recurring interest and dividend income could fluctuate above or below this range based on timing of interest and dividend payments and the future composition of our funds' investment portfolios. In addition, the contractual terms of our fund partnership agreements and whether our fund is above or below its respective priority return, could further impact the amount of realized carry each quarter.

Looking now at our Management Business results. And to highlight the point Marc made a moment ago, on a year-to-date basis through September, Management Business ENI was $159 million in 2012 compared to only $48 million for the same period of 2011. Our management fee revenues of $447 million in the first 9 months of 2012 were 23% higher compared to 2011, which was largely driven by both organic and strategic growth within our credit segment. Over the same period, our Management Business expenses were only 6% higher.

Compensation expense in the Management Business were $254 million for the 9 months compared to $253 million in the same period in 2011. Although we've added headcount this year, our compensation expense in the Management Business is flat between these 2 periods, largely from the adoption of our incentive pool compensation plan last year, whereby certain discretionary bonuses are driven in part by realized carry and are therefore recorded as realized profit-sharing expense in the Incentive Business. There was $46 million of incentive pool compensation accrued during the first 9 months of 2012 compared to $14 million for the same 9-month period of 2011.

Turning back to quarterly performance. Total Management Business revenues of $185 million in the third quarter were lower on a sequential basis by $51 million to the second quarter, primarily due to net transaction fees that we earned for the El Paso energy transaction in the second quarter, which also impacted the lower compensation expense over the same sequential period.

Total compensation expense in the Management Business was $81 million in the third quarter compared to $89 million in the second quarter of this year and $86 million in the third quarter of last year. Quarterly incentive pool compensation amounts included within the Incentive Business were $19 million for the third quarter of 2012 compared to $6 million in the second quarter this year and $7 million for the third quarter of last year.

Non-compensation expenses were $59 million during the third quarter of 2012 compared to $48 million during the third quarter of 2011. This increase was largely driven by higher G&A and professional fees that were affected by the previously mentioned growth in our Credit segment as well as placement fees related to EPF II. The $11 million of other income in our Management Business this quarter includes both interest income and FX gains.

I'd like now to turn to our Incentive Business where we report our more variable financial results, including carried interest income and profit-sharing expense. We had our best quarter so far this year in terms of realized carry, with $230 million recorded across all segments compared to $53 million of realized carry in the third quarter of 2011.

Furthermore, Lyondell also declared a $2.75-per-share special dividend in October which is expected to have a positive impact on realized carry during the fourth quarter when combined with the aforementioned sale of 20 million shares in early November.

During the third quarter, we also had strong investment performance in our underlying funds, as reflected by the $344 million of unrealized carry gains compared to $1.7 billion of unrealized carry losses during the third quarter of 2011, when markets in general were under more pressure. Our private equity segment generated $341 million of total carried interest income during the third quarter, which includes $188 million of realized carry income and $153 million of unrealized carry income.

Fund VII was the primary driver of these amounts this quarter, while Fund VI continued to perform on a net basis, close to its 8% priority return. After adjusting for purchases and sales, Fund VII appreciated by approximately 15% during the third quarter, outperforming the 6% gain in the S&P 500 for the same period. The biggest drivers of Fund VII's outperformance this quarter included the 28% appreciation in Lyondell and the 18% appreciation across Fund VII's distressed debt positions and other credit investments. Since its inception in 2008, Fund VII is generating a gross and net annual IRR of 35% and 26%, respectively.

Fund VI appreciated during the third quarter by approximately 3%, which slightly underperformed the S&P 500. The appreciation in Fund VI was led this quarter by its investments in Realogy, Lyondell, Berry Plastics and Smart & Final, offset by declines in a few of our public and private holdings, including Caesars, Rexnord and Siva. Since its inception in 2006, through September 30, Fund VI has generated a gross and net annual IRR of 9% and 8%, respectively.

As an additional data point for Fund VI, we wanted to mention again that Realogy recently completed its IPO in October, and Fund VI owns approximately 50 million shares. You may have noticed that we recognized $36 million of realized carry from Fund VI while the general partner obligation increased by $26 million. We were able to realize cash carry for the terms and conditions of the Fund VI partnership agreement, while on a U.S. GAAP basis there was a general partner obligation of $170 million at September 30. As we have noted in the past, carry distributions from our private equity funds are based on actual cash realizations from the funds' investments as opposed to the mark-to-market distributions implied by U.S. GAAP standards, which assume the hypothetical liquidation of all the funds' investments as of the specified date. Under our fund documents, the general partner is required to return the excess carry distributions, if any, at the end of the fund's life.

As of September 30, 2012, an additional $395 million of fund appreciation, or 3.8% of the current fair value of Fund VI investments, is needed to fully reverse the $170 million general partner obligation, after which, we estimate that the next $959 million of investment appreciation in Fund VI will result in our earning unrealized carry on an 80-20 catch-up basis, where each additional dollar of appreciation results in $0.80 of unrealized carry.

Turning now to our Credit business. Our credit funds generated an additional $229 million of total carried interest income in the Incentive Business, which includes $187 million of unrealized carry and $42 million of realized carry. Our senior credit funds accounted for $99 million and $33 million of this unrealized and realized carry income, respectively, which was largely driven by our credit opportunity fund, COF 1. During the third quarter of 2012, the Stone Tower and Gulf Stream funds that were integrated into our credit platform also generated $44 million of unrealized carry. Apollo's total AUM as of September 30, 2012 was approximately $110 billion.

During the third quarter of 2012, we raised an additional $1.5 billion of new capital, which was largely driven by EPF II, our natural resources and India funds, new managed accounts as well as equity offerings that were completed by both our residential and commercial mortgage REITs.

At the end of October, and subsequent to the AAA Athene transaction that was announced less than 2 weeks ago, there was approximately $11.3 billion of AUM related to the Athene Life Reinsurance platform. This amount now includes approximately $3.8 billion of AUM managed directly by Apollo across our private equity, credit and real estate investments. For the remaining $6.2 billion, we provide asset allocation and related services which includes approximately $1.3 billion of AUM that is expected to run off over the next 12 months.

Looking at our balance sheet as of the end of September, our gross carried interest receivable was over $1.6 billion. In addition, there was an $826 million profit-sharing payable that includes $135 million for contingent payment obligations that were incurred in connection with the acquisitions of Stone Tower Capital and Gulf Stream Asset Management.

The $135 million obligation is based on the future expected carry to be generated by these acquisitions, although not all of the expected carry has been recorded yet. Nevertheless, after offsetting the entire profit-sharing payable, we had a net carried interest receivable of $800 million, representing $2.07 per share of value.
With that, we'll turn the call back to the operator and open up the line for any of your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Michael Carrier of Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

First question, just on the level of employment. You mentioned liquidity feels like it's maybe driving some of the prices higher than the fundamentals and just giving your value contrarian methodology. So when you look at the level of this quarter, and you guys mentioned second quarter was obviously elevated, so are you just being more patient? And then where are the opportunities that you are seeing? Maybe you're waiting for a pullback or something, but where are they that you're still being pretty active in terms of doing the due diligence, doing the work?

Marc Adam Spilker
Former Senior Advisor

Thanks, Mike. Well, what I would say is, for us, this is the new normal. And so the investment teams are out there. We're always looking for differentiated, off the beaten path, idiosyncratic. We continue to say that. And so the quarter-by-quarter deployment will be lumpy. And so on the one hand, we are saying that while things may be improving and the market may have a more optimistic view than we have, we're still out there looking for opportunities to provide value. We have an interesting pipeline, and we continue to focus on the areas that we've been talking about, which is EPF in Europe; the natural resource business, which we obviously did a large transaction last quarter; and within the private equity segment, differentiated idiosyncratic opportunities. And so we're going to continue to go out and invest in the way that we have in this sort of new normal in the way that we've invested for the past 23 years.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, it's helpful. And then just on the Management Business. I think, given some of the recent acquisitions, it's been a little bit of a challenge to try to figure out like where the run rate is. And obviously, when we look at the margin in that business and the run rate and revenues now, it is at a higher level. I just want to make sure, when we're looking at that this quarter, it didn't sound like there's anything unusual there. But it definitely seems like a step-up, too. So I just want to make sure from run rate standpoint this is a pretty good level, like there's not anything that's too out of the ordinary this quarter.

Marc Adam Spilker
Former Senior Advisor

We wanted to highlight this quarter because we felt it's gone a little bit less noticed that the run rate is growing. We're working very hard to build efficiencies into the operating model and, obviously, working very hard to grow the business. We have -- and we're also working to create a balance between opportunistic funds which are episodic and yield funds which are more open for business on a day-to-day basis. So we do feel like we've gotten to a higher level. And over time, we still think that there's plenty of room for growth going forward. But this is -- we've built up the business, and I don't think there was anything in the second or third quarter that -- or this year that was unusually high, that this feels like a good level for the firm right now. And we think that there's room for upside.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. And then just last one on the distribution. Obviously, the $0.40 at the high end of kind of where things have been. Given -- you guys give sort of your consistent or your regular dividend, and then you have the interest income. It seems like when you look at the amount of capital that's in the ground, the percent that's been kind of pre-2008, the amount that's public, it feels like the amount that you're going to see on the kind of the one-time or in-nature will be higher. But when you look at those factors and then the percent that's public and any of the lock-ups that are in place, assuming a sort of steady-state market, is there any way that you guys feel comfortable in saying that you could see an extra $0.05, $0.10 on that distribution? Or is it just because of the volatility of the market, you don't want to go there?

Marc Adam Spilker
Former Senior Advisor

Yes. I just -- just to reiterate what we've been saying, which is the 7% quarterly -- $0.07 quarterly and the $0.05 to $0.10 on the interest income, interest and dividends, and then whenever windows of opportunity open up for other monetizations that we're going to continue to take them. The thing we've also been trying to highlight is that, given that we put a lot of capital to work at the bottom of the cycle, that there are things in our portfolio that are ripe when the window for exit opens up. And we're very opportunistic.

Operator

[Operator Instructions] Your next question comes from Bill Katz of Citigroup.

William R Katz
Citigroup Inc, Research Division

First question, one of the themes that's been coming out of the universal banks is sort of risk-weighted asset mitigation programs to hit the Basel capital levels. It seems like that rhetoric's been picking up a little bit. I'm just sort of curious what you might be seeing and what opportunities might be -- maybe first on the plate to try and bring some assets and investments.

Marc Adam Spilker
Former Senior Advisor

Yes. I think this is something we talk about every quarter and is virtually in every LP and every shareholder meeting, which is -- and it's really a lot focused around Europe. And so we continue to believe that what's required in Europe is a lot of patience. This is a secular, structural shift and what's happening in Europe. And while on the one hand, we don't believe that right now this is a big distressed opportunity and it's not a for-sale sign on the banks' balance sheets, that banks are selling assets and we're able to buy. We have an interesting pipeline, and we think the ongoing capital constraints, the ongoing Basel III, Dodd–Frank, Volcker and all the other pressures on the center of the financial system is going to continue to create opportunities. But you have to be really patient. And I think the story in this space that goes -- the story that goes untold in this space is that there's a lot that's needed in order to take advantage of its opportunity. And so we have a dedicated team with a track record and experience. We have just under 700 servicers in Europe. We have the long-dated capital, we could actually close on transactions, and there's a lot about the structuring expertise that's required to partner with selling banks, because each bank has their own idiosyncratic issues around tax and reg cap. And so what we're doing is we've built a team. We think we have a world-class team and all the assets in place that I talked about. And unless you're there with the capital and have the experience and the brand and the relationships, it's a lot harder to take advantage of. We've been doing transactions quarter-to-quarter, and in the big scheme of the market, it doesn't seem like a lot, but relative to our EPF franchise, we're continuing to deploy capital and see it as both a short- and long-term significant opportunity.

William R Katz
Citigroup Inc, Research Division

And just maybe a follow-up for Martin, when you look at the base compensation year-on-year, that number seems to have been trending lower just by the increase in headcount. Is that just related to synergies from the recent transactions? Or is there something more structural underneath that as well?

Martin Kelly

Chief Financial Officer

I think it's a combination of factors. It's transaction-driven, to an extent. It's sort of a recalibration of accruals as we get closer to year end. And it also is impacted by the incentive pool that's booked into the incentive company.

Operator

Your next question comes from Marc Irizarry of Goldman Sachs.

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

Marc, I wanted to just dig in to fundraising a little bit for the opportunistic funds versus the more liquid credit strategies. Can you talk a little bit about the LP demand for being able to put money to work quickly in credit versus I guess if you look at your sort of history of doing lots of -- doing sort of distressed in the opportunistic funds, maybe you can talk about how a fund raiser for Fund VIII is going relative to that dynamic?

Marc Adam Spilker
Former Senior Advisor

So as I said, on Fund VIII, we're about to commence. So there's not a lot more to say about that right now. But that's certainly something that we'll get into in more detail in the future. What we're trying to say is that when you look at the Credit business specifically that there are 2 types of opportunities that are -- well, 2 types of businesses, is opportunistic credit and yield. Yield tends to be much more day-to-day, open for business, management-fee focused. The opportunity side is obviously focused when there's dislocations in the market, we'll raise funds. You can look at things like what we had done in the crisis like the COF funds and what we're doing now in the EPF franchise. But with the acquisition of Stone Tower and Gulf Stream plus the existing business that we had, particularly in our senior loan, that we're building out a more diversified, go-anywhere credit platform where we can allocate capital to where we see the biggest opportunities or the most value in the market. And so a question that you've asked a couple of times in the past, which is we're growing our marketing team to be able to do both, which is mobilize the organization when we see an opportunity and towards being more of a solution-driven sales force, especially in credit where each of our LPs, particularly in the pension plan space, have different views of risk/reward and want to be able to, in a way that can scale, bring tailored solutions to our LPs so they can get the risk/reward on the credit spectrum that they're looking for and that matches our expertise to generate returns.

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

And then just in terms of the portfolios on the private equity side in the -- what's sort of left in there on the distressed and on the debt side, how should we think about the sort of the tenor of those investments and I guess some of the -- there's lots of talk from the industry about the frothiness of some of the credit markets out there. I mean, should we expect that you'll continue to sort of clip these coupons and we'll get the realizations from them? Or should we be anticipating maybe that you'd be more sellers of credit in some of those portfolios?

Marc Adam Spilker
Former Senior Advisor

I think it's going to be really market-driven. And so obviously, what we've said is a part of what makes us unique is the way we invest. And that creates interesting, more recurring monetizations that come from interest and dividends. But when those investments get to points, that seems sensible to sell, and the opportunities are there to do so, whether it's from a liquidity or price point of view, we will do that. But that's all subject to market conditions, and we're just going to watch that very carefully.

Operator

Your next question comes from Roger Freeman of Barclays.

Roger Anthony Freeman
Barclays PLC, Research Division

Just -- I guess in the Credit business, you had stronger returns, I think by a fair amount in COF I versus COF II. I'm just wondering what is driving that? Is it just sort of the seasoning where investments are? Or is there somewhat a different mandate within there?

Gary M. Stein
Head of Corporate Communications

Yes. The big -- Roger, the big driver is -- in COF I, there is a lot of Lyondell stock, which is really the big driver of the difference between the 2 funds.

Roger Anthony Freeman
Barclays PLC, Research Division

Okay. All right. And then, I guess, the other question, just more broadly on real estate. Obviously it's a focus of yours, and a number of the other firms are investing a lot in the business. I'm just -- I'll just be interested in hearing your thoughts as to what it's really going to take to make this a big and successful business for you and how you're going to differentiate this longer term. Because it's a business that a lot have tried and haven't pulled off successfully. You certainly have the resources. Just curious of your latest thinking on that.

Marc Adam Spilker
Former Senior Advisor

Yes. Look, when we think about the real estate business, we think about it in 2 pieces. There's the real estate debt side, and then there's the real estate equity side. I know it's a simplification. But the credit side of the business has been growing and will continue to grow. And that's a business that works very well with our Credit business. Because essentially, it's a credit business and we manage that business the same way we manage the rest of our Credit business. Complex, looking for things that are complex where there are interesting risk/rewards, and that business has definitely grown. And that makes up about half of our business. And that business didn't exist 3 or 4 years ago. So that business is growing, and we continue to see significant upside for that business over the years. On the equity side of the business, I just want to put it in perspective. While we all would like that business to be a very large business and a big-growth business, which we think it eventually can be, we are always going to stick to our knitting of being value-oriented, contrarian investors. And while I will say that we are allocating capital, as you know, from prior calls that we closed on, our North American real estate fund, and we've done a handful of co-investments in Europe. So we have found interesting investments that we like, that the size of that business is going to scale relative to the opportunities. And we're going to be very disciplined about doing it that way.

Operator

Your next question comes from Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

In terms of capital deployed in private equity this quarter, I think, Marc, in your remarks, you mentioned that valuations were ahead of fundamentals. With tax changes, some tax changes happening at year end and probably more occurring in '13 and '14, is there any increased willingness by sellers to get stuff done by year end? And with that, I guess is that making you more active now behind the scenes? And if not, from like a top-down basis, I know you look at it bottoms-up. But from our perspective, what are you -- what would it take broadly to become more active?

Marc Adam Spilker
Former Senior Advisor

Well, I would say a lot has been talked about the tax situation, and it still seems more in the political process. And obviously, we're just going to have to sit and watch over the next couple of weeks and months to see what pans out. But we have not seen -- we've seen a lot of dialogue, but we haven't seen a lot of action related to changes in taxes. That could change over the next month or 2, but have not yet seen any action teed up in advance of that. And that's obviously subject to change.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. So there's just not enough to get people -- more -- sellers more motivated than maybe they had been a quarter ago? Okay. Again, just fishing. And then on Fund VI, it's a big fund. It's had a reasonably good year. It's hovering around this 8% net return, and you've given us some of the investments and what's doing well and what's not. But as we think holistically about the investment portfolio, and again, from a higher level, what would it take -- or what is the most likely path for this fund to be comfortably above the hurdle rate so we can think about this kicking off some good income for us and investors? Is there an answer there, I guess?

Marc Adam Spilker
Former Senior Advisor

Well, I'll try, and then you can decide. When you take a step back and look at Fund VI, this was obviously the vintage that was invested at the top of the cycle. So in the big picture, we're pretty pleased with how this fund has performed relative to the space. Having said that, there are companies that have done better and companies that have done worse. But we believe that behind the scenes that we are finding ways to create value and that in the fullness of time that the market will ultimately realize that. And so that's -- the job that we have right now is to continue to have the portfolio companies do the best that they can. And in the cycle of buy well, manage well and then, ultimately, sell well, we're certainly in the manage well part of this, we think. And as OEs, if the equity markets get better, that's going to go a long way towards helping the market realize the value that we think is in these companies.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Maybe based by like sector, are there more macro things like -- just a stupid example, like if gas went up, you've got enough bets based on the price of energy. Like anything more macro that would maybe disproportionately help this fund and give it that push? Or is it too diversified for any one thing outside of just better valuations?

Marc Adam Spilker
Former Senior Advisor

I think it's more that it's diversified and generally a better market is what would benefit the possibilities of obviously exit and the values in the fund.

Operator

Your next question comes from Chris Kotowski of Oppenheimer.

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

Yes. I mean, at the rate that you've been monetizing Lyondell, and it would -- it seems like it would take you 6 or 8 quarters to fully monetize that position, and obviously, that's a long time, and it's highly uncertain that -- whether the market is as good as it's been in the last 6 months going forward. And so I'm wondering, just given the inordinately important size of that position for Fund VI and VII, is there a way to color or hedge that? And have you ever done anything like that so that you can monetize something over time but hedge the position all at once?

Marc Adam Spilker
Former Senior Advisor

Yes. Look, I appreciate the question, but I don't think there's more to comment on Lyondell.

Operator

[Operator Instructions] Your next question comes from Jacob Troutman of KBW.

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

I just have a follow-up on Fund VI and kind of just the fund structure. So what enables you to take cash carry beyond being over the pref return hurdle? And is that a decision that you make? Or do you take the cash carry on an investment-by-investment basis? Or does the whole fund switch in to cash carry?

Martin Kelly
Chief Financial Officer

The whole -- the cash carry is taken on an investment-by-investment basis, provided that certain terms in the fund documents are satisfied, which, certainly, during this quarter, they were.

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

Okay. And so at some point, maybe when we see the fund cross over into its catch-up period where it'll earn greater unrealized performance fees, we likely should see greater realized performance fees, right?

Marc Adam Spilker
Former Senior Advisor

Well, that all depends on whether or not we monetize investments.

Gary M. Stein
Head of Corporate Communications

It'll still be deal by deal on a cash-carry basis.

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

Okay. And another quick follow-up. On the announced Athene transaction, do you expect Athene to become a greater sources of managed assets for Apollo going forward? Or is there any way you could provide a little color there?

Marc Adam Spilker
Former Senior Advisor

We believe that as Athene grows that, that benefit will accrue through AGM through larger asset management mandates and fees.

Gary M. Stein
Head of Corporate Communications

Yes. And just to remind you -- I mean, Athene was started in, I think, July of 2009 with 0 assets under management and has already grown to -- as we said earlier on the call, it's already grown to over $11 billion of assets under management. So it has been growing quite rapidly.

Operator

There are no further questions. I would now like to turn the floor back over to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

We want to thank everybody for joining us this morning on the call. If you have any other questions, as we said, please feel free to follow up with either me or Patrick. And we'll look forward to speaking to you again soon.

Operator
Thank you. This concludes your conference. You may now disconnect.