S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

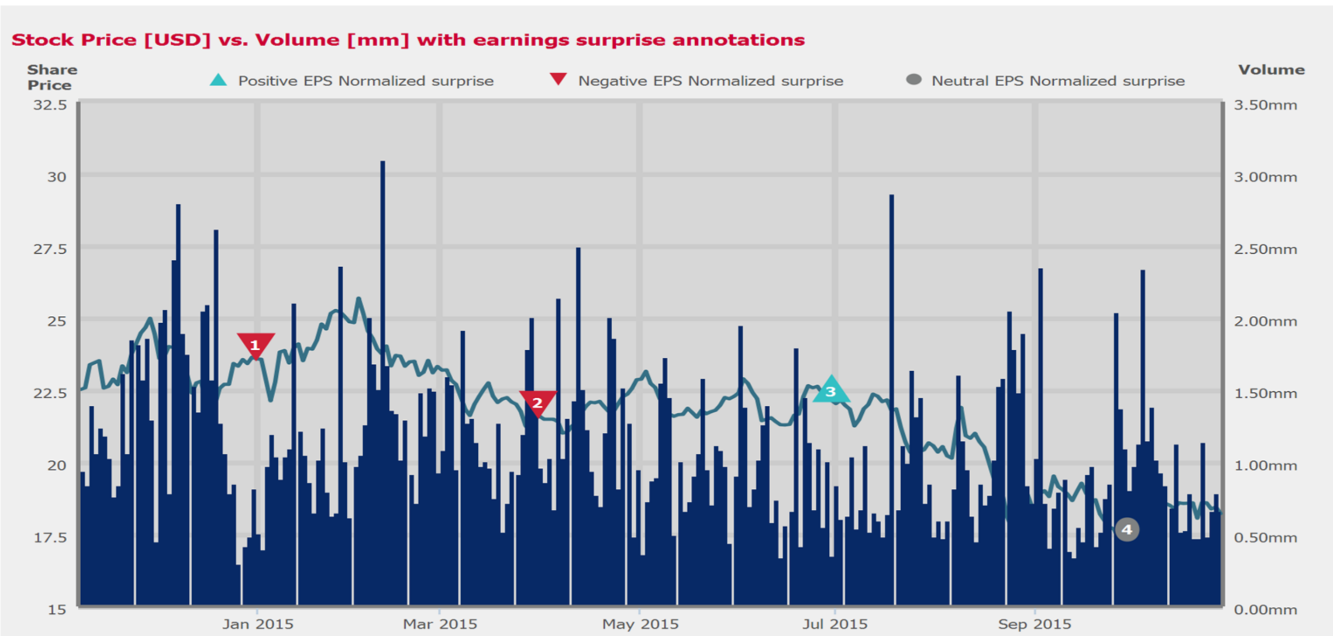
FQ4 2015 Earnings Call Transcripts

Wednesday, February 03, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.26	0.08	(69.23 %)	0.41	1.14	0.96
Revenue (mm)	295.34	193.70	(34.41 %)	341.75	1128.06	1041.67

Currency: USD
Consensus as of Feb-03-2016 2:35 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.38	0.23	1 (39.47 %)
FQ1 2015	0.36	0.23	2 (36.11 %)
FQ2 2015	0.35	0.38	3 8.57 %
FQ3 2015	(0.11)	0.26	NM

Call Participants

EXECUTIVES

Gary M. Stein
Head of Corporate Communications

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

Leon D. Black
Founding Partner, Chairman & CEO

Martin Kelly
Chief Financial Officer

ANALYSTS

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Devin Patrick Ryan
JMP Securities LLC, Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

M. Patrick Davitt
Autonomous Research LLP

Michael J. Cyprys
Morgan Stanley, Research Division

Michael Roger Carrier
BofA Merrill Lynch, Research Division

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

William R Katz
Citigroup Inc, Research Division

Presentation

Operator

Good morning, and welcome to Apollo Global Management's Fourth Quarter and Fiscal Year 2015 Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer.

Earlier this morning, we reported non-GAAP economic net income of $0.08 per share for the fourth quarter and $0.96 per share for the full year ended December 31, 2015. Apollo also reported distributable earnings to common and equivalent holders of $0.31 per share for the first quarter and $1.50 for the full year. We declared a cash distribution of $0.28 per share for the fourth quarter, bringing the total for the full year to $1.38.

Before I hand the call over to Leon, I wanted to remind you that today's conference call may include forward-looking statements and projections and we ask that you refer to the most recent SEC filings for factors that could cause actual results to differ materially from these statements and projections as well as risk factors relating to our business.

We don't undertake to update our forward-looking statements or projections unless required by law. We'll also be discussing certain non-GAAP measures on this call, which are reconciled to GAAP figures in our fourth quarter and full year 2015 earnings presentation. This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent.

As usual, if you have any questions about any information in the earnings release presentation or on this call, please feel free to follow up with me or Noah Gunn.

With that, I'd like to turn the call over to Leon Black.

Leon D. Black
Founding Partner, Chairman & CEO

Thanks, Gary, and good morning, everyone. I'd like to focus my remarks on the rationale behind the share repurchase plan that we announced in our earnings release. Then I'd like to discuss a few highlights regarding our performance before I turn this call over to Josh, who will provide you with some color on a few of our key business activities.

As you know, since our listing in the New York Stock Exchange nearly 5 years ago, we paid out substantially all of the quarterly cash flow generated by our business in the form of cash distributions. This policy has yielded cumulative cash distributions of approximately $11 per share over nearly 5 years, which has been very rewarding for our shareholders.

At Apollo, we pride ourselves as being best-in-class investors and I believe that's something we've demonstrated over more than 2 decades. To produce outstanding returns for our fund investors, we apply our value orientation and spend a great deal of time searching for attractive investments with the funds we manage. We believe it is our responsibility to apply that same philosophy, diligence and commitment for our public shareholders in managing our financial resources.

As a firm, we are continually presented with numerous potential areas to invest capital opportunistically and for strategic growth. And at the current price levels for Apollo's shares, we see a significantly undervalued company, so we do share repurchases as an accretive use of our capital.

As such, given the trading level of Apollo's shares in today's volatile markets, we felt it was financially prudent to adopt a share repurchase plan. This action should be viewed as a reflection of our firm belief that the current share price does not, in any way, capture the inherent strength of Apollo's business model, growth prospects and long-term strategy.

The $250 million share repurchase plan includes $150 million earmarked for open market repurchases and $100 million through a reduction of shares to be issued to employees to satisfy tax obligations associated with equity-based awards. Our current expectation is that share repurchases will occur opportunistically over time. The timing and amount of any share repurchases will depend on a variety of factors, including market conditions and other potential uses of capital. The aggregate repurchase plan represents approximately 5% of Apollo's current market capitalization.

By introducing share repurchases into the mix, we believe we are using a complementary approach to returning capital to our shareholders that will enhance long-term value, while preserving a very competitive and attractive payout through cash distributions.

Before I turn the call over to Josh, I'd like to provide some comments regarding Apollo's business performance. As we look back on 2015, there are a few highlights that I want to quickly touch on, including the strength of our Management Business, positive inflows of capital and deployment of capital by the funds we manage across our integrated platforms.

First, the financial performance of our Management Business remained strong, with pretax cash earnings during 2015 of $427 million or approximately $1.04 per share. We continue to view this as a very solid base of relatively, predictable earnings, supported by long-dated and permanent capital that we expect will continue to grow over time.

Second, we have continued to solidify our position as a leading global alternative investment manager and drive our business forward through organic fund raising efforts and strategic initiatives among our permanent capital vehicles, which collectively led to more than $20 billion of gross inflows for the year. That figure includes nearly $10 billion of fund raising activity, a year that did not include a flagship private equity fund. This organic growth was driven by our continued success in meeting the strong fund investor demand we're seeing, particularly across the credit spectrum, through raising larger successor vintage funds, bespoked management accounts, and newer, open end products, which leverage our existing expertise in product diversification.

Strategic growth, primarily in 2 of the permanent capital vehicles we manage, Athene and MidCap, accounted for nearly another $10 billion of inflows during the year. Athene completed its first deal outside the U.S. annuity market through the acquisition of Delta Lloyd in Germany. In addition, MidCap, an innovative middle market direct origination platform grew from less than $2 billion to more than $5 billion during the year, with expectations of reaching approximately $6 billion in total assets by the end of the fourth -- first quarter 2016.

Lastly, we have remained committed to our value orientation and continue to identify a variety of attractive investment opportunities. In other words, we have planted many seeds that we expect will drive attractive realization opportunities in the future.

Across our integrated global platform, we invested more than $13 billion of capital during the year. This was driven by strong activity among all of our businesses, where in a generally over-valued market, we have continued to find what we believe are attractive opportunities in a number of regions and industries.

In private equity, specifically, our funds deployed more than $5 billion during the year, exceeding our historical annual average of $3 billion to $4 billion. In line with our value orientation, the average creation multiple on investments made by Fund VIII in 2015 was approximately 6x, which is 4 turns below the 2015 industry average of roughly 10x.

Our funds pipeline of committed but not yet deployed capital approached $2 billion as of December 31.

Through the end of the fourth quarter, we have committed 32% of Fund VIII so we believe we are well-positioned to continue to deploy the fund within its investment period.

Taking a step back, this is Apollo's 25th year in business. And today, my partners and I remain as enthusiastic as ever regarding our potential for future growth and profitability. We have an extraordinary team that's now approaching 1,000 employees, with nearly 350 investment professionals, and we all remain eager to drive our business forward.

With that, I'd like to turn the call over to Josh for some additional comments. Josh?

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

Thanks, Leon. I'd like to continue the call by providing some specific commentary around a few of our key business drivers. Starting with asset growth and fund raising.

As Leon mentioned, we generated more than $20 billion of inflows across the platform during the year. Included within that figure is more than $12 billion of inflows in the fourth quarter alone, which we believe provides strong momentum, heading into 2016.

The quarter's activity was led by acquisitions among some of the permanent capital vehicles. We managed further expanding a large base of permanent capital, which now stands at $83 billion and represents nearly half of our total AUM.

In addition to Athene's acquisition of Delta Lloyd that Leon mentioned, MidCap completed the acquisition of the majority of a loan portfolio from Mubadala GE Capital during the quarter, with the balance of the acquisition expected to close during the first quarter.

Our inflows during the fourth quarter also included approximately $400 million from our second natural resource fund, which is now up to approximately $1.7 billion in total commitments, and the fund is continuing to raise additional capital.

We also raised nearly $700 million during the fourth quarter in new or add-on managed accounts, which is an area where we continue to see interest among fund investors. In fact, so far during the first quarter of 2016, we have already closed on nearly $1.2 billion of additional managed account mandates.

As we've said in the past, by providing fund investors with holistic, unconstrained credit solutions targeted to their needs, we believe that we are providing a differentiated service that is not easily replicated elsewhere in the marketplace.

In addition to these offerings, we expect that a couple of our flagship credit products will be in the market with their third vintage funds during the year, including European Principal Finance or EPF, which is focused on buying assets and businesses from financial institutions in Europe; and financial credit investments or FCI, which is our insurance-linked security strategy.

Next, I'd like to provide some context around investment performance. Given the volatility we're seeing in oil prices and the other markets, it's not surprising that a common thread between the march we saw in P and credit during the fourth quarter was primarily driven by our fund's energy investments.

Our fund's energy exposure is only 5% of our $120 billion of AUM in Apollo-managed funds and accounts. That figure excludes the non-subadvised portion of Athene. But as a result of the continued pricing pressure we're seeing on energy prices, a relatively small proportion of the portfolio can create a drag on overall unrealized marks.

Our traditional private equity fund portfolio depreciated by approximately 2% during the fourth quarter. And if we were to exclude energy-related investments from the private equity funds in the fourth quarter, the funds would have been up approximately 1.5%.

Turning to credit. Amid a generally soft backdrop that saw many indices post declines during the quarter, more than $71 billion of Apollo-managed funds in our credit business produced a relatively smaller decline of approximately 1% before fees and expenses.

If we excluded energy-related investments from the Apollo-managed funds and credit, for that same period, the performance would have been flat during the quarter. Ironically, with choppy market backdrop, which led to mark-to-market losses, which are not realized, generally among the funds we manage, has actually created what we believe to be more attractive opportunities for us to put capital to work. As a result, the total dollars invested in 2015 by funds we manage was strong. As we sought to take advantage of dislocations in the market that we believe are continuing to persist in the current environment.

Although the financing markets have all been seized up lately from more traditional buyouts, volatile times like these play to the strengths of Apollo's flexible investment model and integrated platform, enabling us to pivot towards stressed and distressed opportunities as it begins to emerge.

As we sit here today and look forward to the rest of 2016, we're beginning to see the potential for a more distressed investing opportunities than we have seen in the past several years. In fact, given the recent pressure on bond prices, our investment teams have already begun buying debt of selected companies that they have been tracking for years. Historically, approximately 1/3 of our funds invested in capital and private equity, as an example, has been in the area of distressed. To date, Fund VIII has invested a relatively small amount in stressed, but we expect this to increase if the current market environment persists and opportunities become more plentiful.

We are already beginning to see the acceleration of our distressed investing pace as Fund VIII's exposure to distressed as a percent of invested capital nearly doubled between the third and fourth quarters.

Broadly speaking, we believe the combination of our distressed and contrarian investing skill set, our long-dated capital and our dry powder is particularly well-suited for today's environment. In certain cases, where market values of certain fund investments are falling, but our conviction remains, our funds are buying more to build on existing positions as prices fall at a lower and -- and lowering our average costs. While this style of investing can create near-term headwinds in unrealized marks, and E&I accounting, we believe the potential long-term value-creation has proven to be a highly rewarding strategy for our fund investors and shareholders.

Taking a step back and looking at where we are today, we have largely gone through a realization cycle over the past 3 years by monetizing approximately 85% of private equity funds, VI and VII, and also opportunistically monetizing our credit and real estate funds.

At this point, with $26 billion of dry powder across the Apollo platform, we are more in -- in a deployment mode, particularly given the environment I just described.

Now I'd like to turn the call over to Martin for some comments on our financial results. Martin?

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again everyone. Starting with our cash distribution. The $0.28 we declared today was driven by $0.31 of distributable earnings, which resulted from a $0.28 pretax contribution from our Management Business and a $0.03 pretax contribution from our Incentive Business.

We understand the SEC to be focused at an industry-wide level on the disclosure to fund investors regarding the acceleration of fees from fund portfolio companies. In connection with an ongoing SEC regulatory matter, previously disclosed in our third quarter 10-Q that principally relates to this topic, we accrued a $45 million pretax reserve during the quarter.

For comparability purposes, I will speak to the quarter's economic earnings, excluding the impact of the reserve. On an adjusted basis, we own $96 million of economic income in our Management Business during the fourth quarter, up from $79 million in the third quarter. The increase was driven by higher Management Business revenues as well as sequentially lower expenses. The increase in revenue was driven by rising management fees and transaction fees, while the decrease in expenses was driven by lower compensation costs and lighter than expected placement fees.

Turning to the Incentive Business. The economic loss during the quarter was primarily the result of unrealized marks in private equity. The 2% depreciation in core funds during the fourth quarter was driven by 1.2% depreciation in private holdings as well as negative marks on public debt positions. Partially offset by 1.7% appreciation in public equity portfolio company holdings.

And as Josh alluded to earlier, public and private energy-related investments combined were a 350-basis-point headwind on core fund returns during the quarter.

In credit, the investment performance of the funds we manage was modestly negative during the quarter, down 1.2% on a gross basis and down 1.4% on a net basis, excluding the non-subadvised assets of Athene.

Energy-related investments resulted in slightly more than a 100-basis-point drag on performance for the quarter.

Despite the overall performance figures, the credit business posted carry income during the quarter due to gains in certain carry-generating drawdown funds.

Within other income, we recognized a $16 million increase in the value of our direct and indirect ownership stake of Athene. And lastly, on the Incentive Business, there was a discretionary incentive for compensation accrual in the quarter of $8.5 million within realized profit-sharing expense.

Our E&I tax rate was approximately 1% and 3% for the quarter and the full year, respectively, excluding the impact of the reserve I mentioned.

As we've stated previously, we expect the tax rate to normalize in 2016 toward our long-term range of 10% to 20% due to the role of certain benefits realized in 2015.

To provide even more context, we expect the effective tax rate on our management company to be in the mid- to high teens range. We currently expect our cash tax rate on total distributable earnings to be approximately 10% to 15%.

One last point I'd like to mention relates to the escrow position of our private equity funds. Based on December 31 fund valuations, there is currently $0.28 per share of cash that is potentially available for distribution at a future date. As a reminder, escrow is a standard provision in our industry and occurs in our PE funds when the fair value of the remaining investments in the funds falls below 115% of the funds remaining capital.

This typically occurs as a fund gets closer to the end of its life and is holding investments in their latest stages. To provide further color on Fund VI specifically, which accounts for the majority of the cash held in escrow, the fund is currently sitting with approximately $3 billion of remaining assets, a $35 million net carrying receivable balance and since inception, gross and net IRRs of 12% and 10%, respectively.

While Fund VI appears to be relatively close to its 8% preferred return hurdle, the fund's remaining assets would have to depreciate by 44% before the fund entered the phase otherwise known as 80/20 catch up, where unrealized losses would be disproportionately returned to investors in the fund.
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 William Katz with Citigroup.

William R Katz
Citigroup Inc, Research Division

I appreciate the update. And Leon, or any of you guys, I'm sort of curious with the buyback. Just how are you thinking about funding that? And maybe the related question would be, you sort of mentioned opportunistic. And just given how the stock has behaved over even the last year or so, is it safe to assume you're in the market currently?

Leon D. Black
Founding Partner, Chairman & CEO

So in terms of the first question, the reality is if you look at our balance sheet, we have $600 million of cash and then another $500 million of undrawn revolver. And so I don't really -- that's sort of -- and then we have our dividend stream where we're only paying out -- we haven't been paying out all of that, we've been paying out nearly all of it. So I don't -- the buyback feels very manageable from a liquidity standpoint. And so the answer is -- that will be the answer to the first question. The second question, I would say that we are not -- we're announcing a buyback, we have not been in the market but we -- this is sort of the announcement that we may very well be in the market going forward depending on market conditions.

William R Katz
Citigroup Inc, Research Division

And just a quick follow-up, second question. You've been making a bit of a push into the retail segment, could you give us an update on where you might stand and where you see the income opportunity?

Leon D. Black
Founding Partner, Chairman & CEO

Yes, I mean, I'd say that, as we've said on previous calls, the retail investment, we think is under-weighted relative to alternatives. And particularly relative to yield products, whether that yield be real estate/credit, also to a more limited extent than in private equity. And so there are many ways to access the retail channel. Clearly, we've announced some subadvised special situations with people like Oppenheimer and others. That would be the one that we have announced. Clearly, there are a lot of high net worth channels. Basically one of the major banks provide access to their retail client base. And then more recently, obviously, as you know, we had an announced transaction, which we -- which we did not pursue relative to ARC and RCS. And so we looked opportunistically at doing something and that did not work out and you should just read the public disclosure there. But we're continuing to -- and they were obviously in the private sort of BDC/real estate channels, which then go public. So there are many ways to access it, and we're kind of doing all of it and building up our capabilities there, and building up our own sales team there, and looking forward to continuing to press into that area.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Martin, maybe first a question on the fund raising. It's very active, particularly on the credit side. I just wanted to get some sense as the fees are kind of turning on with this type of fundraising, what we should be thinking about in terms of the revenue impact, like the fee rate? And then like the operating margin or the operating leverage in that business? Because the FRE was definitely strong in this quarter when you back out that reserve, but given the strength of fund raising, just what the outlook looks like?

Martin Kelly
Chief Financial Officer

So I'll tell you, the fund -- the fee structure of new fundraising is consistent with what it's been. And so I don't think there's any sort of noticeable change on that side. And then in terms of funds that we have raised that are not yet earning fees, of which there's about $8 million, you can look at sort of the pace of deployment that we're experiencing outside PE and get a sense for how that's ramping up. I think in terms of margins, overall, we remain intensely focused on maintaining and improving our margins over time. And I think the only real, sort of risk in any period to that would be unusual placement fees that we might incur on raising successive funds like EPF III later in the year, but apart from that, I would expect that everything we do is focused on maintaining and improving margins on a fully guided basis.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Got it. Okay. And then maybe for either Leon or Josh. I think when you look at the amount of dry powder and the deployment activity picking up, I think a lot of investors should be looking at Apollo as very well-positioned to take advantage of some of the opportunities. There is obviously the pressure in the current portfolio and then the time to realize the investments that you're deploying currently. So Josh, you mentioned looking at more of these distressed opportunities versus like the traditional private equity new types of deals. When you think about the realization time, you typically -- you see for those types of investments, are they longer or shorter even in typical private equity? Just getting -- trying to get a sense on when you can start to see the benefits there?

Leon D. Black
Founding Partner, Chairman & CEO

This is Leon. So we've been doing this at Apollo now for 25.5 years. We've gone through 4 market cycles. This one is going to be the fifth. We've deployed probably 35% to 40% of our private equity capital overall during down cycles. And frankly, it's had our best returns for the following reason. Basically, when we put that money to work in distressed situations, about half that capital has turned into longer-term traditional PE deals after a restructuring. That restructuring might take a year to happen and then we have gained control of those companies and managed them and built value and made a lot of money on the line, LyondellBasell is one you're all familiar with but in each of those cycles, we've ended up owning 4 or 5 companies through that process and been able to buy in at very attractive prices. In fact, they've averaged about a 5x multiple through the distressed process. What makes this so interesting, to answer your question, is about half the capital we put to work in distress, we fail to get control. We fail to get control because either we can't get a large enough position, which gives us an important seat at the table, or maybe at the end of a restructuring process, a third-party comes in and says we'll buy at a high multiple now that you've cleaned it up. In all of those cases, we've made a lot of money on our bond position. And those have been 70% or 80% IRRs on average, although over short periods, which could be even less than a year. And then we get to recycle that capital and use it again. So distressed, as long as you know what you're doing and you're looking at companies that are good companies with bad balance sheets that you're delevering through a restructuring process, we have found that either we end up with the prize of having very good leverage buyout transactions of companies we control, or we make very nice long-term money, or for half of it, we make very high returns over short periods and we redeploy the capital.

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

The holding periods for the distressed business is a lot shorter. So realizations come quicker. I mean, just to add a little bit, I mean, over the last few years, we've realized about $50 billion. So we're largely sold down in our private equity portfolio, there's very little left. There's a little bit of energy, obviously, which is affecting our margins. So when we look at our portfolio, we sort of feel like we're well-positioned to weather the storm in what's left. A lot of liquidity, even in the energy, a lot of liquidity, a lot of -- a lot of runway, a lot of hedging, very low cost reserve position. And so even though you do get some mark-to-market volatility in these cycles, what we try to do is position ourselves very defensively on our existing portfolio, not sell it, weather the storm while we're adding on offense. And if you look at our numbers, you'll see that for the first time in years, deployments in 2015 were $13 billion, realizations were $8.5 billion. So we've flipped now, and we're going into a deployment cycle from the -- several years before that, realizations were roughly 3x the size of deployments. And so this is just -- we're doing what we, I think, I've said we're going to do and what you should expect us to do, which is we're buying when things get tough and selling -- we're buying low and selling high. I hate to be trite. We sold when the markets were high, and now that the markets are low, we're slowing down our selling and doing a lot of buying. The reality is when you look at the fourth quarter, deployments were very, very high. They were as high as they've been. And realizations were as low as they've been. So again, you're going to see -- I think in some sense, the cycle getting a bit worse is going to really help us create a lot of value, even though it may create few more mark-to-market losses for us in our existing portfolio, which is very small.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Got it.

Leon D. Black
Founding Partner, Chairman & CEO

Just to put a little granularity on that, our last private equity fund was an $18 billion fund that was the largest done of this vintage. The reason for that is because I think our investors have appreciated that we've had 25 years of 39% gross, 26% net return to them, going through all of these cycles, investing in good times and bad and doing what Josh just said. One of the reasons we're starting this repurchase program and why I stated earlier that we don't think the current stock reflects, in any way, what our underlying value is, is that even though we've had the best-in-class returns in PE for the last 25 years, the market is giving us a negative valuation frankly, today. Negative, not even 0 for our franchise-leading track record in creating superior returns, in good times and bad. So that's really coming full circle as to why we think this is something that's the right thing to do for investors just to have a stock repurchase because if you look at $13 a share today and you look that there's almost $3 on the balance sheet of assets, so you have $10 then, left over, you tell me what the multiple is. It used to be 16x, let's say, it's 12x. That says your whole incentive fee business where we're the best in the industry is being valued negatively, which to us, is kind of an absurdity but an opportunity, clearly, in terms of repurchasing shares.

Operator

Your next question comes from the line of Craig Siegenthaler with Credit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Capital deployment picked up nicely in the fourth quarter as global asset prices corrected. Based on your transactions already announced in 1Q, how do you expect the aggregate investing activity to track into 1Q and throughout 2016 at this point?

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

It's very hard to predict because -- so we have a significant private equity -- traditional private equity pipeline, but to a large extent that pipeline is waiting for the financing markets to open up. And right now that with -- given all the volatility in the market, the financing markets haven't quite opened up yet. They could. But at the same time, we're deploying capital in our distressed for control and our credit business is quite nicely at an expanded pace. So I really can't -- I mean it's -- because it can literally change week-to-week, month-to-month and I kind of know in my mind what's out there, it's very hard to be able to give you an accurate answer. I could tell you that if the financing markets do come back, it's likely we'll have a very significant quarter. And if they don't, we may have a smaller quarter, but distressed for control will pick up a lot.

Leon D. Black
Founding Partner, Chairman & CEO

I mean, once more, we had been through this before. This is 25.5 years, 4 cycles, this is cycle number 5 and we're pretty tried and true and proven in being able to traverse these cycles. But underscoring what Josh said, it's very hard to predict quarter-to-quarter. But cycle-to-cycle, we feel extremely comfortable.

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

You just sort of, unfortunately, have to be opportunistic. I mean, the other thing that's going on truthfully is the liquidity in the markets is quite different this cycle than it has been in the last few cycles. And so, again, the trading in our distressed businesses and our credit businesses is very chunky. It can be -- literally, bond prices or bank debt prices can move down a huge amount on very little volume and then you buy a little bit and they could spike back up or you can have big chunks come out. And so just the predictability of deployment on a daily or weekly basis is just unclear. But in the medium term, I mean, truthfully, if the environment gets worse, deployment will over time go up for us. When you look at '08, we deployed way more. Our average deployment -- let's just use private equity for a second, our average deployment has been in the $3 billion to $4 billion range. At very high points in the market, it can dip into the $2 billions, and during the financial crisis, it was $8 billion. And so if -- I'm not saying this is going to be a financial crisis, but if this environment slowdown continues, in the financing markets, our deployment will over time directionally be heading up. That'll be a good thing for us.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Got it. And just as my follow-up. On Slide 24, you highlight CLO performance and I see that returns are fine, sort of 2% in 2014; 2%, 2015. I'm just wondering how did this compare versus the benchmark that Athene has for these assets or maybe any insurance hurdle rates that they look at?

Martin Kelly
Chief Financial Officer

I can talk to how they performed versus the industry benchmarks. I'm not familiar with Athene's benchmarks, but the whole line market has been down in the quarter. The leverage line index was off 2 percentage points and we have -- although we have sort of underperformed depressed, we outperformed the market generally speaking so...

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

Yes, it is pretty good. I mean, CLOs have been whacked. I mean, this is pretty good performance.

Operator

Your next question comes from line of Ken Worthington with JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

So first, you have some credit AUM at a carry. When you think about getting 300 to 500 basis points back in this type of market, is that possible for 2016? Or is it sort of hard-core fantasy here? And then as we think about the recovery in some of those products, is it something that you manage or do you have to wait for it? And I think, Josh, you talked about adding kind of better investments to the current book. I guess, is that true with credit, too? And is there enough dry powder in the right funds to kind of get those products back? So sorry, I think there's like 20 questions in there, but thanks.

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes, let's [indiscernible]. So first of all, it's not -- I mean, the high-yield market was down 500 basis points, just the high-yield market last year. The energy high-yield was down 25% and so it's not -- I mean, the reality is it's not hard-core fantasy at all. I mean, the reality is the credit markets have been very -- if you look at benchmark credit, B, it's up 400 basis points from the low, that's a huge move. So you do the math. I mean, it's 5 to 6 -- 5- to 7-year duration, that's a big move. So it's not hard-core fantasy at all. The kind of liquidity -- certainly, I mean, if liquidity were to come back in the marketplace if the B, BB credit markets were to go back to where they were or oil were to come back quickly, it's really not hard-core fantasy. And we're buying a lot of stuff that has been -- that is getting quite stressed in our credit businesses as well as our private equity business, and it's really no -- and truthfully it's really no different. I mean, at the end of the day, we don't -- we have more than enough liquidity in our credit businesses to manage kind of through this situation. We have a lot of liquidity in our opportunistic businesses, and if anything, we've had a lot of -- we've been really slow at deployment there. And so I think this is a good situation for us. And what happens is, in this kind of environment, our investors, because of our brand and because of our expertise, they look to us. This is when people want to add capital. And so we'll add capital as we start to draw down liquidity. I mean, the reality, the tough thing for us has been not finding the liquidity, it's been finding the investment opportunities and we tend to be one of the few shops where, when things get tough, our -- institutional investors do pull back a bit. They just do. But with us, you have this countercyclical trend where people say, okay, we're going to pull back, but the dollars we have we're going give to someone like Apollo because we know they're good at this. And so I think -- I actually think, again, it's quite good for both our credit and our private equity and our real estate businesses. We operate all of our businesses with the same culture. We're integrated and we offer -- we operate with this value-oriented culture. And so this good across-the-board. I'm not sure if I got everything there, but...

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Yes, good enough. I appreciate that. And then this is sort of pie in the sky, too. But is there potential for some consolidation for APO or maybe some of the permanent capital funds because, obviously, MidCap did the GE book. APO bought some of the CLO managers a few years back. So as we look at '16, are these type of acquisitions done in good times? Or do they start to perk up more in bad times? And do credit manager start to come on the block because they're under pressure because their investments are under pressure? Is there kind of a closet opportunity here for you on the consolidation front?

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

Yes, I mean, it's like every other -- we tend to be value-oriented both for our GP and for the company, for APO, as well as for all of our investing for LPs, we have the same philosophy. And clearly, we don't pay up. It's just who we are. And so when people, when there's pressure in the system, that's certainly, on a broad level, helps us find more value-oriented investment opportunities. It's hard to be more specific than that though because, obviously, you have to work through kind of the underlying investments. Certainly, when things get tough, you need to also be careful and diligent. So I think I'd say, broadly, it's helpful. But it's hard to be more specific. That's much -- it's a general statement.

Operator

Your next question comes from the line of Robert Lee with KBW.

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

And I apologize if you had gone through this before, but on the kind of third-generation credit funds you've touched on earlier, is it possible to kind of size how you're -- give us some sense of what you're thinking about kind of the next-generation will be relative to the second in terms of size? I mean, are you assuming kind of 50%, 20% increases, same size? Just some sense of that?

Gary M. Stein
Head of Corporate Communications

I'd say it's tough to say. I don't think we want to be putting targets out there at this point. But generally speaking, if you look at the trajectory of our prior credit funds, whether it's EPF or FCI or script [ph], the trajectory has been where the successor funds have been as large, if not larger, than the prior funds. And clearly, it'll be based on performance of the funds.

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

Okay. And then -- and maybe a strategic question, if memory serves me, I think similar to Athene Asset Management that you've built to manage Athene's assets here. I believe, in Europe, you've been looking at or trying to build something similar whether it's to manage kind of Delta Lloyd assets and portfolio company financial assets. So just kind of curious on where that initiative stands and kind of how are you thinking of that as a contributing kind of to management fee growth over time?

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

Yes, I mean, it's moving forward and it's something we are excited about and focused on. At this point, it's -- it's really helping our internal businesses because what we've done is integrated and created one team that's servicing a lot of our businesses in Europe whether they be portfolio companies or companies like Athene where we have -- or companies like Delta Lloyd where we have asset management agreements. But the client capital, which is going to generate the management fees, is still coming. We've focused on setting it up and getting the value proposition right and then we're going to grow it. And so the expectation is that it will add management fees, but the reason we're not emphasizing it today here now is that we're still -- it's still a work in process in terms of the client business.

Operator

Your next question comes from the line of Luke Montgomery with Bernstein Research.

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

You sound very guarded about the ability to finance buyout deals. I get that the leveraged finance markets have been choppy, but it seems like your comments are a bit more negative than what I'm hearing from some of the peers. So maybe you could just clarify if this is something you think that's affecting you disproportionately? Is it more of an issue for everyone? And then I guess I would have thought your brand and history would be a real advantage in this type of a financing market so...

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

Yes, I'd...

Leon D. Black
Founding Partner, Chairman & CEO

I think we're just trying to level with you that it is a more choppy market. I don't think our deals are harder to finance than anybody else in the industry. And I do think we have terrific relations with our banks and multiple banks. And there are deals that will be financed, there will be deals that will have to be negotiated because there's a lot of fear among the banking community that they don't want to be stuck with hung loans and they have regulators looking down at them pretty sharply. So there's some fear and anxiety and I think deals will have to have more equity in them in terms of the capital structure and be slightly less levered. And clearly, we're in a period, again nothing new versus the past, where this can affect pricing and eventually either prices will have to come down or deal flow will be compromised. I think that's just a fact that we're being blunt about. But no, I don't think that there's an issue vis-a-vis our peers on Apollo deals. I think, if anything, banks respect what we're able to do in these markets and want to work with us. But it is a choppier market and we're stating the obvious.

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

I would also add that this can -- it can literally change in a couple of weeks. So if sentiment -- there was a pretty quick and negative sentiment shift in both the fixed income and the equity markets over the last few months and that's what's created this. From our point of view, the fundamentals of the market remain similar to what they were last year, but the sentiments got negative. And the sentiment can certainly turn around and there's also a lot of quantitative easing globally. There's a lot of money out there that could come into these markets. And so we're just reporting the real-time market data and activity that we see over the last 30 or 60 days and not in any way prognosticating about where it goes, but just being ready to react either way to create value for our investors.

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

Okay. I appreciate the candor. And then just in terms of -- just thinking about potential risks related to credit marks, the issue of maybe you can remind us of how much of your credit management business fees are priced on gross or net asset value. It didn't seem to have much effect, at least not a material one, on the credit management fees in Q4. But I want to revisit the exposure there and then maybe you could comment how material a risk you think that might be to the stability of FRE, your goal of growing FRE with the credit business?

Martin Kelly
Chief Financial Officer

Yes, it's outside the -- so there's the Athene assets for which we drive the 40 basis point fee and that is based on the market value of the assets. So -- but the sensitivity from a fee perspective is not great, so just to dimension that. Those assets have a duration of about 4 years. So if rates or spreads widened or backed up by 100 basis points, that would translate into about $10 million of management fee revenue risk on an annualized basis. Away from that, there's some, but there's not much and you've actually seen it come through in the Q4 earnings. So I think it's sort of -- certainly, whatever's happened has been reflected in the results that we've just posted.

Operator

Your next question comes from the line of Devin Ryan with JMP.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Just a couple of follow-ups here. So first, maybe just to drill down a little bit more into the opportunity in energy. It seems like the opportunities set could be pretty broad with some companies that just can't operate at $30 oil, so that could create recap opportunities and then others that just can't support their CapEx, maybe you got some asset sales at attractive prices. So with that said, is there a particular area within energy where you guys are currently focused? Or you feel that the risk/reward is better today?

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

Yes, I mean, I think you said it. It's a very broad opportunity set and there are multiple things going on and I think you have some of them. There's also JV structures and other things that you didn't talk about. Some companies have too much debt. There's capital structure opportunities. And so there's just a lot of pressure in a very capital-intensive environment where most people are -- nearly everyone is cash-negative at this price and so if someone that has a lot of dry powder, it's a great opportunity and so we're trying to have -- be very flexible as to how we approach it. And certainly, the credit -- the secondary trading prices of debt are finally starting to get to the point where they're interesting in some specific cases. That has not been the case until recently. But it's getting there now, but that doesn't preclude private equity opportunities. So in all of our funds, we're pretty active, to be honest with you, and it's not really specific. So I would just leave it at that.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay, helpful color. And then within Athene, you guys have been expanding your funding agreement backing those businesses. I know it's relatively small, but I believe the capacity is much greater there. So curious to know how fast you can scale that or you want to scale that to a meaningful number? And really where you see the capacity there over time?

Gary M. Stein
Head of Corporate Communications

Yes, I think it's tough for us to speak on Athene's behalf in terms of the operations of their business and projecting out what they're potentially going to do. But clearly, to your point, broadly speaking, the funding agreement backed note market is an attractive one for them as an avenue of growth. They did their inaugural offering, I think, in October. It was a $250 million offering, which they were able to do now that they have a minus ratings across-the-board. Clearly, they'll look to opportunistically use that market going forward, but to try to scale it out or scope it out, I think it's not something I think we'd want to do. We'll leave that for Athene to do going forward.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay, fair enough. And then just with respect to the buyback, I think it'd be great to see and clearly you have to start somewhere on a number. But just curious if there's any way or anything we can think about or look at to give us some sense of how the size was determined or metric to maybe think about where that could go over time. I don't want to put the cart before the horse here, but just trying to think about that number.

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

I mean, $250 million is a meaningful number relative to our float.

Martin Kelly
Chief Financial Officer

15%.

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

Between 15% and 20%, it's a -- and also it's sort of, as we execute it, plus or minus, generally we'll immunize the dilution from employee grants. It was very manageable in terms of our capital structure and our liquidity and our cash. So that's where we're starting and we'll see what happens.

Operator

Your next question comes from the line of Patrick Davitt with Autonomous.

M. Patrick Davitt
Autonomous Research LLP

If you look at the evolution of your commentary over the last year or so on the energy marks and PE, it sounds like the private marks have started to become a little bit bigger of a drag than they were earlier in the year when it was really more EP Energy. Is that a fair perception? And if so, what's really driving that? Are the hedges starting to roll off? And if that's the case, kind of where do you think we are in that process if prices kind of stay in this range?

Joshua J. Harris

Co-Founder, Senior MD & Director

Yes, I mean, I think it's pretty simple. I mean, the answer is, the price of energy went from $80, $90 to $50 to $30. And the reality is that the private marks -- I won't speak about the specific private marks, if I can do that, but the reality is the private marks are based on, in some sense, public comps and other things -- amongst other things. And so it totally makes sense that the private marks are coming down. From a hedge point of view, we are kind of like between 70 -- we're greater than 70% hedged in our private equity portfolio this year. And so that's kind of a little bit from us, but we're still substantially hedged. And when you look at the overall liquidity of our overall portfolio, we have more liquidity than we have maturities for the foreseeable future. So clearly, there are specific companies that have different things going on, which I won't comment on. But -- so our portfolio is actually in quite good shape, but it doesn't surprise me. I mean, you would expect the private marks to be moving down as a function of the oil prices.

Martin Kelly
Chief Financial Officer

Yes, I'd just add in the quarter, the marks on private and publics were pretty similar actually and it's really company-specific. Most of our PE investments are early stage E&Ps and we benchmarked them against comps realizing every company's different. And there's a variety of methods that we use to do that. But if you look at sort of what's happened in the last couple of quarters, they're similar. The only -- whether you look at sort of debt versus equity and private versus public, what's in our credit business or what's in our fee business, it's all sort of thematically and consistently down. The one other comment is that gas or companies that are sort of tagged as predominantly gas are down more than oil in the recent bust. So that's...

Leon D. Black
Founding Partner, Chairman & CEO

Yes, as a follow-on I would just add, I mean, as we've talked about having gone through a meaningful realization cycle, just the amount of public holdings we have has gone down quite substantially and the value of EP as part of that portfolio has really gotten down significantly already. So that's why you're seeing more of a shift towards some of the private marks having more of an impact.

M. Patrick Davitt
Autonomous Research LLP

Okay, that helps. And then, Josh, the comment on the 70%, does that mean you're hedged for the full year?

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

It's an aggregate. That's an aggregate figure for all of our companies in our private equity portfolio. It's an aggregate comment on the percentage they're hedged for this year, yes.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Just a follow-up question here on the buyback. So it seems you're buying back some of the stocks that's issued here to employees that's satisfying tax obligations. So just curious how that's changed from what you had done in the past? What sort of -- some of the mechanics were around that, and how are you thinking about the time frame for using up that $100 million component. If I look at your equity-based comp I think for this year, it was about $62 million. I think, last year it was about $100 million. So is this maybe like a year or so -- or 1.5 years or so on that component?

Martin Kelly
Chief Financial Officer

Sure. So we've been buying back our net shares certainly for the last year or so and we've made that decision each quarter and now we're sort of formalizing that as part of the overall announcement we made this morning. We've had -- if you look -- I think if your question's getting at sort of the share count and how that evolves over time, as we look forward, if we were to net share settle and our share programs remain the same, which we currently expect, then each year our share count would step up by about 2 million shares. So there's about 0.5 percentage point of dilution per year in our share count if we net share settle from here. With the program we announced this morning, that gets us into year 3 of what we see as net share settles, 3 years from now.

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

And so it hasn't really changed its formula as we continue to be able to have flexibility to make the decision every quarter. But I think we're indicating that -- we're indicating where we're headed today given the current stock price. And I think also, obviously that minor dilution Martin talked about would be offset by any shares we buy back in the market to the nonemployee.

Michael J. Cyprys
Morgan Stanley, Research Division

Got it, okay. And if I could just ask a follow-up here just on some of your earlier deployment commentary. It seemed like that did tick up a little bit in the quarter. But I guess just from here, what signposts are you looking for to deploy capital even more aggressively from here? We've seen credit spreads gap out, concerns around liquidity in the marketplace, we've seen oil prices collapse. So I guess just how much more of the market needs to pull back? Or what do you see happen from here?

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

Yes, again, each -- we have return targets in each of our funds and we're absolute return players. And when we think that the market prices or the prices where we can transact are below levels that allow us to achieve our returns, we buy. And so what you're seeing is the aggregate of all those decisions, which are -- there's hundreds or even thousands of those decisions. And the reality is, yes, when things get tough, since we tend to think about things over the medium term or the long term in terms of we have locked-up capital and we're looking at returns over a period of time, when you see short-term disruptions in the marketplace, which pushed out prices such -- that tends to create more investment opportunities. So naturally, investment flow ticks up and you see us with greater volume of deployment. But that's the way we approach it and it's hard to really predict again what's going to happen. But certainly, lower prices, lower values are better.

Operator

At this time, there are no further questions. That concludes the Q&A portion of today's call. I will now return the floor to Gary Stein for additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Thank you, operator, and thanks, everyone, for joining us this morning. As we noted earlier, if you have any questions, please feel free to follow up with Noah Gunn or me.

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