S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

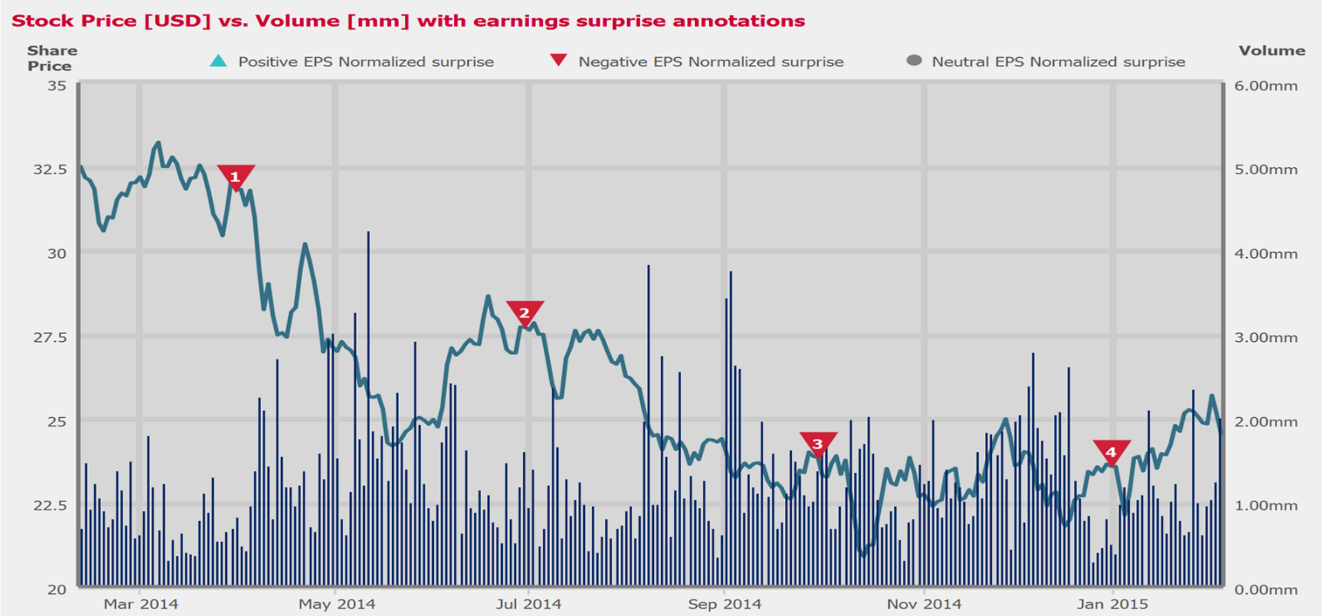
FQ1 2015 Earnings Call Transcripts

Thursday, May 07, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.36	0.23	(36.11 %)	0.49	1.93	2.24
Revenue (mm)	402.65	276.82	(31.25 %)	522.10	1944.47	2221.79

Currency: USD
Consensus as of Apr-22-2015 9:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.58	0.55	1 (5.17 %)
FQ2 2014	0.66	0.52	2 (21.21 %)
FQ3 2014	0.38	0.12	3 (68.42 %)
FQ4 2014	0.38	0.23	4 (39.47 %)

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Presentation

Operator

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

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer. You probably noticed that we issued a new and improved format for our quarterly earnings release this morning based largely on feedback we've received from many of you. In addition to changing the overall look and feel of our earnings presentation to make it more user friendly, we also added a number of new disclosures in our continuing effort to enhance our transparency.

I'd like to highlight just a few of the new disclosures for your reference.

On Slide 6, we've included a breakdown of our cash earnings between our Management and Incentive businesses. On Slides 7, 8 and 9, we've provided key business drivers and metrics for each of our segments. And specifically, for our credit segment, on Slide 8, we've provided a streamlined and more transparent view of our credit AUM and performance by fund type rather than fund strategy to facilitate your analysis of the segment.

On Slide 10, we've provided a simplified view of our AUM roll forwards as well as additional granularity regarding the drivers of changes in our quarterly AUM. On Slide 11, we've added details regarding funds that are not currently earning carry and the appreciation in value required to achieve carry.

Lastly, on Slide 14, we've provided you with details regarding our balance sheet at the segment level. We hope that you'll find these significant enhancements helpful as you analyze our business. And as always, we welcome your feedback.

Turning now to our results. Earlier this morning, we reported non-GAAP economic net income of $0.23 per share and distributable earnings to common and equivalent holders of $0.35 per share for the first quarter, of which $0.33 per share was declared as the cash distribution, representing a 94% payout ratio. Before I hand the call over to Josh, I wanted to remind you that today's conference call may include forward-looking statements and projections, and we ask that you refer to our most recent filings with the SEC for important factors that could cause actual results to differ materially from these statements and projections, 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 first quarter earnings press release. This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. As usual, if you have questions about any information in the earnings release 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 Josh Harris, Co-Founder and Senior Managing Director of Apollo Global Management.

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

Thanks, Gary, and good morning, everyone. During my brief remarks, I'd like to discuss a few elements of our business, including fundraising, deployment, innovation and strength of our management business. Broadly speaking, we believe 2015 is off to a great start as we look at the long-term growth drivers of our integrated investment platform.

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First, on fundraising, we had inflows during the quarter of approximately $5 billion, and I'm pleased to note that these inflows came from a variety of our investment strategies and reflect the continued growth and diversification of our business. Some of the largest contributors during the first quarter included $2.7 billion from MidCap, which I'll discuss further in a few minutes; $425 million from a first closing of our new energy opportunity fund; and nearly $600 million from 3 strategic managed accounts, including one that represented a $300 million add-on for an existing account and another $250 million representing a new account, which we believe could be expanded meaningfully over time.

In addition to these significant capital raises, we also continued to see inflows in a number of our other evergreen investment strategies, including our credit strategies, hedge fund, our credit short fund and our total return fund, to name just a few. As we look forward, we are very excited about the pipeline for additional capital raising across the platform, which includes $2 billion from the Teachers Retirement System of Texas that we expect to close in the coming months.

As you may recall, we were very fortunate to receive a $3 billion mandate from that system just a few years ago, and they recently approved an increase of that original mandate by $1 billion. They also approved $1 billion for a new separate mandate focused on credit investing. In addition to continued growth in strategic managed accounts, where we now manage $17.5 billion of AUM pro forma for the incremental TRS allocation, we expect to have an initial closing for our second private equity natural resources fund this summer. We also continue to raise capital for our second U.S. private equity real estate fund and a variety of credit strategies.

Moving on to deployment. Our funds put more than $2 billion to work across our platform during the quarter, sowing the seeds for what we expect will be future realization opportunities. Despite an environment in which valuations remain elevated, our investment teams continue to leverage our integrated platform and deep industry expertise to define what we believe to be an attractive value-oriented investment opportunities.

In private equity, the funds we manage deployed $1 billion towards a number of transactions across the globe, including the opportunistic buyout of Presidio, an IT services company based in the U.S.; and the corporate carve-out of Leighton Services, a construction services company in Australia; and Tranquilidade, an insurance company in Portugal. Our pipeline of committed, but not yet deployed, capital was $2 billion as of March 31, of which $1.5 billion was related to asset buildups that we expect will be deployed over time with the balance sheet -- with the balance related to deals that have been signed, but not yet closed.

In credit, the funds we manage deployed $760 million across a variety of strategies, including nonperforming loans in Europe, energy lending, life settlements and other opportunistic credit investments. In real estate, we deployed nearly $500 million, primarily in commercial real estate debt investments. Across the Apollo platform, our funds had more than $28 billion of dry powder available for investments at the end of the first quarter, and we continue to evaluate an active pipeline of opportunities to put additional capital to work for the funds that we manage.

Turning now to innovation. As we've highlighted during our Investor Day at the end of last year, identifying and creating new business opportunities is a perpetual undertaking here at Apollo. The most recent example of this effort is MidCap income, an innovative direct origination lending platform, funded with permanent capital that we discussed on our last earnings call. I'm pleased to note that MidCap has already added $2.1 billion of fee-generating assets to Apollo during the first quarter, and we believe this is just the beginning for MidCap.

As you may recall, we entered into an investment management agreement with MidCap, whereby we provide access to our origination underwriting platform to help MidCap broaden its capabilities beyond its core focus on healthcare. This relationship is already creating significant value as MidCap recently leveraged our expertise in student lending to commit to purchase up to $1 billion of loans from LendKey, a leading online provider of consumer lending solution.

Given the changing landscape in the financial services, we see significant opportunities to scale the MidCap platform. The announcement of MidCap's relationship with LendKey just a few months after launch of

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our partnership, is a great example of the value we believe we can add to innovative direct origination platform.

Lastly, I'd like to touch on the growth of our management business. As you know, we have been focused on growing the contribution from this part of our business to the overall profitability of the firm, particularly since it provides a steady and predictable source of cash flow for our shareholders. The revenues we generate in our Management Business are primarily derived from management fees we earn from long-lived assets we manage, more than $70 billion of which is permanent in nature. In addition, to driving top line growth in our Management Business, we are intensely focused on improving our margins through strict cost management and operational efficiencies. I'm pleased to note that we have made significant progress in this regard. Since we went public 4 years ago, the profitability margins in our Management Business have more than tripled, and we still see meaningful opportunities for continued revenue and margin expansion over time, although we remain committed to investing in the business as we scale our platform.

During the first quarter, it's worth highlighting from our enhanced disclosure on Slide 6 that our Management Business generated pretax distributable earnings of $0.26 per share or approximately $1 per share on an annualized basis, which we believe represents a strong and growing base of cash flow. Around the time of our IPO in the first quarter of 2011, the equivalent figure was $0.11 per share or less than $0.50 per share on an annualized basis. This means we've more than doubled the most stable cash flow strain of our business in just 4 years. As we look forward to the remainder of 2015 and beyond, we believe our value-oriented investment style, integrated alternative investment platform and ability to innovate leave us exceptionally well-positioned for meaningful long-term growth and profitability. With that, I'd like to turn the call over to Martin for some additional comments.

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again, everyone. Starting briefly with AUM, during the quarter, total AUM grew by approximately $3 billion to $163 billion, driven primarily by growth in our credit business, partially offset by realization activity within private equity. Fee-generating AUM grew by $2.5 billion during the quarter, also due to growth in our credit business, and reached $131 billion at the end of the first quarter.

Touching on our economic earnings for the quarter. First, in the Management Business, we earned $92 million of economic income, adjusting for a couple of meaningful items in the fourth quarter, including the $59 million of C&S fee from Athene that has since ended, as well as $32 million of nonrecurring TRA valuation within other income. Management Business ENI grew on a sequential basis during the first quarter. While we continue to prudently manage our cost base, looking forward, we expect compensation expenses to rise as we continue to grow our Management Business revenues. In the near term, we expect non-comp expenses, excluding placement fees, to revert back to the run rates seen in prior quarters, as we continue to invest in the platform.

Turning to the Incentive Business. In private equity, the 2% appreciation in the first quarter was driven by 4% appreciation in publicly traded equity holdings and 2% appreciation in private holdings, partially offset by slightly negative marks in some public debt holdings, which represent some ongoing distressed situations. With nearly $15 billion of unrealized value across the private equity funds we managed at the end of the first quarter, this generated total carry of $55 million during the quarter.

In credit, the investment performance of the funds we manage was positive, up approximately 2% on a gross basis for the quarter, excluding the non-subadvised assets of Athene. As a result, our carry-generating AUM in credit grew by $4.4 billion during the first quarter, as some of the assets that fell out of carry in the prior quarter returned to carry. Despite the positive fund performance in credit this quarter, carry income for the credit segment was flat. This result is a function of which funds [indiscernible] in or out of carry, as well as one particular fund which fell below its preferred return threshold during the quarter, reversing some carry on an accelerated basis, as is convention.

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Lastly, on the Incentive Business, there was a discretionary incentive pool compensation accrual in the quarter of $12 million within the profit share expense. Next, I'd like to provide some additional information on Athene's impact on our results this quarter.

First, the percentage of Athene-related assets invested in Apollo managed funds was approximately 22% or $13.5 billion as of March 31, 2015, up slightly from 20% as of December 31. As we have noted previously, we expect the sub-advised assets under management to increase gradually over time, as long as we continue to perform well in providing asset management services for Athene and also identify opportunities to redeploy their investment portfolio.
As of the end of the fourth quarter, Apollo had a 9.3% economic ownership interest in Athene. This includes earned C&S and related fees through the fourth quarter of 2014, as well as Apollo's general partner stake as the Manager of AP Alternative Assets or AAA. In dollar terms, Apollo's economic interest in Athene is valued at $447 million on our balance sheet as of March 31. Note that this amount excludes the $123 million gross carry receivable related to AAA as of March 31 that we expect to be paid in shares of Athene at a future date. With regards to our cash distribution, the $0.33 we declared today includes our regular distribution of $0.15, plus $0.18 of other cash earnings. At March 31, the escrow percentage for Fund VI remained below the 115% threshold at 104%, with an escrow cash balance of $0.27 per share. With that, we'll turn the call back to the operator and open up the line for any of your questions.

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Question and Answer

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

First question, just on the growth in fund raising and more focused on kind of the MidCap business, there's other assets that are for sale out there, and I think there's been a little bit of a transition from maybe asset sales to a little bit more of maybe business sales. As so I just wanted to kind of understand, when you guys are looking at that opportunity and the growth that you're seeing in that product, how should we think about where the demand's coming from, like how big that opportunity is, and what both the -- maybe the yields or what you can produce for the declines that are in those products? And then also, from your standpoint, how the economics work relative to a more traditional product.

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

Yes. So I mean, the answer is, as you might expect, we're approaching this in a highly flexible manner. So whether it's businesses or assets that are for sale or just direct origination on a loan-by-loan basis, we're going down all those paths. And we had a nice capital raise at MidCap the investors are excited about participating in that opportunity. And I would expect us to continue to grow that platform. Gary, have we disclosed what the returns are on MidCap? I mean...

Gary M. Stein
Head of Corporate Communications

So we're essentially targeting 6% to 8%.

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

On an asset level, right? So when you -- on an asset level, you have a 6% to 8% return, but you are able to leverage that. So by leveraging it, you'd be getting into the mid-teens for your investors. And we get paid a fee on the MidCap assets. Plus, we have some equity outside.

Gary M. Stein
Head of Corporate Communications

Yes. And we haven't specifically disclosed the fees we get from MidCap, but generally in the Athene zip code.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. All right, that's helpful. And then just as a follow-up, maybe just a couple of things, Martin, on the financials. And I think you hit on, and I just want to make sure we've got them right, I think you said non-comp would normalize back to the trend line that we've seen over the past couple of quarters. Tax rates seemed a little bit lower, didn't know if that was just mix. And then the incentive comp ratio that you mentioned there was $12 million that was included there. And that was maybe onetime, but I just wanted to get a sense on the outlook. Are we still somewhere in that 40%, 50% range in a more normal quarter?

Martin Kelly
Chief Financial Officer

Sure. So I guess, 3 points on non-comp. Placement fees will be more episodic because we raise funds. Adjusting for that non-comp expenses, you should look at last year's sort of run rate as the best proxy

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going forward. Q1 was a bit light for a couple of reasons. On the incentive pool, we accrued that based on realizations. And so if you look at the realized profit share to realized carry ratio, it's around 40%. When you apply that to economic carry in any particular quarter, it can skew it, but over the term, I think sort of low to mid-40s as an appropriate range for the profit sharing. And on taxes, we spoke at the Investor Day about a 10% to 20% ENI tax rate over the longer term. That remains, I think, an appropriate range over time. We should have a lower rate in 2015 for a couple of reasons. One is we're benefiting from the Athene C&S fee, which was taxable, even though it was noncash, haven't gone away. And so that's reduced taxable income. And we also have some stock deductions this year, which should provide additional benefits.

So I think if you break down the taxes, this year, we would expect a single-digit tax rate on our Management Business from an NOI perspective. And then the overall NOI tax rate depends on the mix of taxable to non within the incentive company, which is hard to predict. The other point I'd make though is from a cash tax perspective, cash taxes in the quarter were around 2%. And I would also expect cash taxes for the year to be in the single-digit area as we look forward to expected taxable income on what we expect to sell.

Operator

Your next question comes from the line of Bill Katz of Citi.

William R Katz
Citigroup Inc, Research Division

And I certainly appreciate the enhanced disclosure [indiscernible]. Question is on Athene, just given some of the changes being proposed by the Department of Labor on fiduciary reform, how do you think, if at all, such impact might have on Athene's ability to grow?

Gary M. Stein
Head of Corporate Communications

Obviously, the rules are still out for comment, and we'll see ultimately where they land. I would just point out, from Athene's standpoint, they don't sell product into the 401(k) market. They do sell into IRA market, but not the 401(k) market. So it's -- at this point, I think the view is that we wouldn't expect it to have any significant impact on their business, but I think it's too early to tell until the rules get finalized to see -- to able to -- to have a better view on that.

William R Katz
Citigroup Inc, Research Division

Okay. Second question is, just sort of coming back to your emphasis on the growth of the management fee, although over the last several years it's a powerful trend, how do you think about that translating into the dividend -- or distribution, excuse me? I think you said that roughly $0.15 was your sort of base dividend and another $0.18 or so from other items. Is there a chance that there's an opportunity there to raise the minimums as you look ahead?

Martin Kelly
Chief Financial Officer

Yes. I think I would look at -- and one of the reasons we've provided enhanced disclosures this quarter is to highlight the cash earnings of the management company. So I would look at that, which was $0.26 for the quarter. And within a couple of pennies, I think in any quarter, that's a good proxy for the cash earnings in the management company. So I sort of look at that as the core cash earnings of the company with upside obviously from whatever we sell in the incentive company.

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

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But we take your point, it's something we should -- like the sort of how we talk about the base dividend is something we should think through given what Martin just said.

Operator

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

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Also appreciate the enhanced disclosure, very helpful. Let me start on -- just on fundraising. Maybe you guys could talk a little bit about some of the mutual fund sub-advisory you mentioned last quarter, whether you see, first of all, the Oppenheimer. Maybe it's still too early for the Oppenheimer flow situation, but also for other deals like that where you're sub-advising the liquid fixed income portions of retail money. And if you can also comment on other abilities or other potential for outsourcing fixed annuity assets, and then including the 22% for Athene, if there's a range where you think that could end up being -- it's obviously been pretty good traction in that so far.

Gary M. Stein
Head of Corporate Communications

Yes. Look, I think on the first part of your question about Oppenheimer, yes, it is still too early to comment. We remain in a quiet period on that, as the shareholder vote has not yet been completed, but we do hope that will come to a conclusion shortly. Broadly speaking, in terms of that, we had said on a prior call that the sub-advisory relationship with Oppenheimer, was really the first -- with a '40 Act fund, for us, we do think that opportunity has the ability to scale over time. And so we will continue to keep you posted as things develop there. With respect to Athene and the sub-advisory percentage at 22%, as we've noted, that has been ticking up over the past quarter since the Aviva deal closed. And our view is that should continue to tick up as we continue to find opportunities to put the capital to work, but there is no target percentage that we could point to at this point. But again, we do expect that to continue to gradually increase.

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

It's worth pointing out that free Aviva was at 32 and Aviva brought on a lot of assets, and it just takes time to absorb all those assets in a way that is effective for Athene and allows us -- allows them to leverage our platform. And it's been going up about 1% a quarter. And we don't really see it slowing down for a while, but we're going to keep working on trying to make it higher and higher and higher because it's mutually beneficial.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Great. That's helpful. And then also, just maybe, Josh, can you comment on your view on deployment opportunities? It sounded like a pretty good quarter for deployment, but given your view that valuations are high in the credit markets, maybe where are you seeing incremental opportunities? And maybe just some overall color on the credit markets in general.

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

Yes. So I mean, I think the credit markets continue to be impacted by global quantitative easing and be extremely aggressive. And so it's a more difficult time to invest generally. I'm not sure that environment's going to end anytime soon. So we're relying on the strength of -- the breadth of our platform to define investment opportunities in credit and in private equity that are more opportunistic, idiosyncratic or kind of require incremental complexity, less -- some untraded stuff. So in terms of like what those opportunities are, certainly, as we've mentioned in the past, you have the banks kind of moving out of certain asset classes. And the banks are the largest institutions in the market. And so there are many, many asset classes that become less overvalued or get undervalued.

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And so certainly, asset-backed finance is certainly an energy when you have volatility. That can create some opportunities, direct origination. And as we've talked about in MidCap, banks used to do a lot of that nonperforming loans, are being sold off. Europe provides an area of opportunity. Although certainly, with the new quantitative easing that's going on in Europe, that's gotten -- that's affected that. So really the opportunities are idiosyncratic. And what we try to do is set up our platform to be able to absorb aircraft leasing, insurance liabilities, set up our platform to absorb these opportunities when they arise. And we've been successful in doing that. The only other thing that I would mention is that certainly, the breadth of our credit platform is moving from sort of high yield into crossover investment grade and investment grade. So probably [Audio Gap] is illiquid or not rated, untraded crossover investment grade. And so we're starting to -- that opens up a lot of AUM for us to be able to go after and capture. And so we expect that to be a larger growth opportunity for us going forward.

Operator

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

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

And I'll just echo everyone else. I appreciate the enhanced disclosure. Just a couple of quick questions on fundraising. I know you mentioned your end market, another real estate fundraising, another energy fund. Can you just remind us on kind of the targeted sizes of those? And then, also, I guess, Delta -- Athene's pending acquisition of Delta Lloyd, which, I guess, would bring another $5 billion of assets, any update on the expected closing of that transaction?

Gary M. Stein
Head of Corporate Communications

Okay. Yes, so on that, let me start with Delta Lloyd. And I should point out, for those of you who may not have seen or heard the call, Athene hosted a conference call. The management team hosted a conference call on Tuesday, and a replay of that call is on the homepage of the AP Alternative Assets website. There's also a helpful presentation, which provides an update on the Athene business. And in that presentation, they noted that Delta Lloyd is actually now sitting with $6 billion of assets, and they are working with BaFin to push that through the regulatory process and get the transaction closed. So that's underway.

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

On fundraising, we haven't really put out the targets. But what I can say is that we expect both of those fundraisers to exceed what we had last time. So -- and certainly, in the case of natural resources to be multiples of. And so it's all -- all the momentum is very positive.

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

All right. And then one question for Martin, and I apologize if you had mentioned this earlier, I had to jump off for a brief period. Quarter-to-date, any update on quarter-to-date activity that we should note in terms of realizations and whatnot?

Martin Kelly
Chief Financial Officer

Sure. So we've announced 2 transactions, which haven't closed, one is Great Wolf and the other is Brit. And combined, they're $0.10 of cash earnings. They may close Q2, they may close Q3.

Operator

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

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

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A question for Josh. Just in your comments on the credit market, I'm wondering, is the issue just that there's no value left in any other markets or is there an issue that you are seeing negative migrations in your own ratings, and actual deterioration of underlying credits other than maybe in energy.

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

No. So I'm glad you asked that. So no, no, in the underlying credits and underlying economy is -- I mean, it's not obviously blistering growth, but it's very steady sort of growth. In fact, I mean, the U.S. is generally in the mid-2s and Europe is turning around. Global growth is in the mid-2s, heading towards 3. So the credits are all fine. It's really a function of the fact that there's over 20 countries that are quantitatively using today, and 2/3 of the world's government rates are negative. So you have negative real rates. And so what happens when that occurs is that anything that is easy to understand, liquid and rated, there's just a wall of money on the wanting to buy credit. And so you've got to get out of the way of the wall of money hitting the credit markets and get into things that are not rated, that don't have CUSIPs, that are a little more complicated, that are directly sourced. If all you're doing is looking at your Bloomberg and buying something that is priced off of the treasury curve, definitionally, it's going to be -- it's not going to have a lot of value in that. And so what we're doing is quite different than that obviously. We're getting out of the way of that. Our whole platform is set up to take advantage of things that aren't as affected by that. But certainly, the entire investment world will be affected by the amount of money hitting the system by the central banks. And so certainly, our mark's there. Our credit's actually quite good, but it's just a return.

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

It's not a matter of getting the coupons?

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

Well, it is. It's a matter of the total return. So the total -- like again, so the high yield today or bank debt, you're earning kind of low 6s for a single B high-yield instrument. That's where the market is today. So if you went back historically and looked at an average over many, many years, that'll be closer to 10. So I guess, I'm saying the relative value of the absolute yield of everything has come down because a lot of huge money players, the pension funds and the sovereign wealth funds and the endowments all hold a lot of fixed income that might be earning 2. And if you buy a 10-year treasury at 2 with inflation at 2, you're getting grand total of 0 on your money. And so that affects the credit world. That affects the credit world. So everyone who plays in the credit world is dealing with this. I think the thing about it is it could go on for a while. I'm not sure that there's really -- I think there's just a lot of flexibility and capacity in the world to allow the central banks to do that. And the U.S. certainly is starting to come out of that, but the rest of the world, Europe and Japan and even China now are starting to do more of that. And if you look at the overall level of quantitative easing, it's actually gone up, not down. And so I think the U.S. rates will be impacted by that, as will global rates.

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

Yes. I guess, what I was getting at is you're not seeing or expecting a wall of defaults either. Are you?

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

No, I mean, I think you'll have -- so relative to like opportunistic credit and distressed, I don't personally, and this is -- obviously, my crystal ball is as murky as everyone else's, but I think the 2008 style massive systematic collapse and creation of distressed and opportunistic credit. If I had to bet, I would bet it would be -- you're going to have to be a lot smarter about it. So energy gets distressed, natural resources with the strong dollar's getting distressed. Certain aspects of retail are getting distressed. Shipping has been distressed. Europe is distressed in certain cases. So I think there are opportunities in stressed and

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distressed and opportunistic. But it's not a systematic opportunity, it's a very targeted rolling opportunity that will be based on business conditions in certain sectors. And so the breadth of your platform, in being smart about it, is what's going to drive your ability to put interesting investment returns on the board and not waiting for some big collapse.

Operator

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

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Of the $0.35 of deed this quarter, do you have handy the contribution from your permanent capital vehicles like Athene, MidCap, the BDC, the REITs? And I'm wondering how we should think about this level on a more normalized basis given that you just formed MidCap in the quarter.

Martin Kelly
Chief Financial Officer

I don't have that to hand. What I can say is that MidCap at its current asset level is contributing about $10 million of management fees per year. And so with that comes a little bit of costs, but that's -- apply an Athene-like management fee structure to an asset growth. And that will drive that up.

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

Can I just -- I would just point you to Page 8 because I just want to take your question on a little bit more directly. Permanent capital of $70 billion of our $95 billion of fee-generating AUM in credit. It's a little hard to answer your question because the cost structure is services, all the vehicles and all the funds and all the other -- both permanent and nonpermanent capital vehicles. So I think that's about -- I mean, without getting into cost accounting and allocation and other things, you can see that $70 billion out of $95 billion is about -- so just take the credit DNI and multiply by 70-95ths, and that will get you close. I think beyond that, we're going to be doing allocations and other things. I mean, the permanent capital does tend to be higher margin. It's a good margin business. So it's probably better than that, to be honest with you, but that's probably as good a way to get a feel for it as any.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

And Josh, it's pretty easy to kind of back in the revenue, but expense color would be helpful just because this is a more stable, potentially a higher valued stream of earnings there. And that's kind of why I was asking you that. But just as my follow-up on the private equity side, Fund VIII, can you remind us when the investment period for this fund ends? I'm just checking it out here, and it looks like there's still $16 billion of dry powder tucked into that fund.

Martin Kelly
Chief Financial Officer

Yes, between 4 and 5 years from now. They have plenty of time.

Operator

Your next question comes from the line of Brennan Hawken of UBS.

Brennan Hawken
UBS Investment Bank, Research Division

I'd also like to say thanks for the enhanced disclosure. It's really great. On Athene, just a quick one, so the NAIC is considering a rule change to captive reinsurance. What impact do you think that could have on the returns at Athene? And could you walk us through that a bit?

Gary M. Stein

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Head of Corporate Communications

Yes. I mean, I think I would probably put that one to Athene, but I would just say, generally, Athene does not really use captives. They have one captive that was a holdover from the Aviva transaction, but it's not really how they operate their business. But beyond that, I don't think we could comment about potential NAIC rule changes at this point.

Operator

Your next question comes from the line of Chris Harris of Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

I want to direct you to Slide 11, my question's going to be based off that slide. If we just look at your credit funds that are below the hurdles, is there kind of a general characterization you can make as to maybe why those are below the hurdles? Is it energy-related investments? Is it something else? Or is it really -- is that too broad of kind of a characterization to try to identify it?

Martin Kelly
Chief Financial Officer

I think that's certainly part of it. That's certainly part of the answer, particularly as it relates to the drawdown component there. And then if you look at the $12 billion in its entirety, about 50% of that is within 250 basis points of getting to carry, and some of that is just sort of new investments in the CLO business and elsewhere across the liquid performing platform. But some of it is certainly energy broadly defined in the natural resources, including sort of metals, mining and so on.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Is it fair to say that the pretty significant recovery we've seen in crude oil lately is having a positive impact on those credits since the end of the quarter?

Martin Kelly
Chief Financial Officer

We've seen -- in April, we've seen a bounce-back, more so in the opportunistic business than across the broad platform. They're both up, but opportunistic is up more. And so, yes, that's true. I think the account that we mentioned in the prepared remarks that had the clawback this quarter, most of that was due to unrealized losses related to natural resources. And more than half of that account has returned in the month of April. So I think we are seeing it across the platform. We're not sort of back, but we're getting back.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay, great. And a quick follow-up, if I may, Martin, on the -- I think you said $0.10 on the realization so far or if you were to realize it on this quarter, that's what it would be. I believe Brit paid a special dividend. Does that number include the special dividend from Brit? And how will that show up exactly?

Martin Kelly
Chief Financial Officer

Yes. Most of that -- $0.09 of that $0.10 is Great Wolf. So Brit's only a small piece.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

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So a question just about the credit business and the carried interest there or cash carried interest. Just wondering how we should be thinking about the cash carried credit. On a trailing 12-month, it looks like it's about $240 million or so down from about $400 million that was generated in 2013. Yet the carry eligible AUM was up about 20% over that period since 2013. So I guess, how should we think about the trajectory of cash carry of credit? And then, I guess, just related to that, as you think about growing the credit business, in the past, you've put some large targets out there, I think about $250 billion or so for credit. How much of that should we think about being carry-eligible at the 15%, 20% carry rates?

Martin Kelly
Chief Financial Officer

So the way I think about it is, I guess, let's look back at actuals, and then we'll forward. So in 2013, the credit business generated economic carry, net carry of $0.80. In 2014, it generated $0.40, and that's with the MG losses in the fourth quarter. It's obviously tough to predict a quarter on a perspective basis. But if you look at what's in the ground today earn and carry, $20 billion, a way to apply a 10% rate to that, which I think is conservative. But assume 10% after carry, after profit share and after taxes that's about $0.50 a year. If you then took the $42 billion of carry eligible AUM and credit and said, "Let's say we could get that, the in-carry amount up to $30 billion, that gets you to $0.75 a share." So I think without raising any more money and just looking at what's in the ground today with some reasonable potential, that sort of frames, I think, a realistic carry rate over time, obviously add to that new capital raises and growth in carry assets.

Michael J. Cyprys
Morgan Stanley, Research Division

And was that cash carry?

Martin Kelly
Chief Financial Officer

Well, it becomes cash carry. So I'm talking sort of economic appreciation, which will convert to cash carry as it [indiscernible].

Michael J. Cyprys
Morgan Stanley, Research Division

Okay. I guess, I was just thinking about the timeframe. Could you help us think about the timeframe for it to get to the cash carry component?

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

I mean, the only way -- I mean, the drawdown funds are generally run like private equity funds. So it's on Realization. I mean, obviously, it's a pretty complicated question. We'd have to go back through and look at all the -- they're not going to be held as long as private equity investments, is my guess, but there's a lot of funds in there. There's nonperforming loans and there's distressed. And so my guess is that rather than a 5 or 7-year hold, you're probably half of that. But you're not -- it's certainly not going to turn every year, but that's a very broad guess. The liquid performing is going to be more predictable annually because it's mostly interest expense. And so that's just going to come out every year and be what it will be. So there's a component of that, that is pretty much predictably going to become cash. The non-opportunistic part of it generally will become cash in the year. That's also the part that doesn't have as much incentive fee. So it's probably worth -- we'll take on -- like you're asking, there's a 1,000 pieces that add up to a whole. So we can certainly take on some of these questions and communicate over time. But that's probably as good as we could say today.

Operator

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

Amanda Yao

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JP Morgan Chase & Co, Research Division

This is Amanda stepping in for Ken. All of our questions have been asked and answered at this time.

Operator

[Operator Instructions] Your next question comes from the line of Bulent Ozcan of RBC.

Bulent S. Ozcan
RBC Capital Markets, LLC, Research Division

Just a question on your private equity portfolio. Could you give us a little more color on the appreciation in the quarter, and then also maybe talk about the EBITDA growth at your portfolio companies in the first quarter, and maybe if you have updated data in the month of April? And then secondly, on the ratio of companies that are based in value, based on public quotes. That number has declined to 39%. And I'm just wondering what, going forward, if that number could decline any further or if you're kind of hitting the bottom here.

[Audio Gap]

and if we are going to see that number tick up again over time?

Martin Kelly
Chief Financial Officer

Sure. So let me start, and then I'll hand it over to Josh. So in the quarter, TU was up 2.2%. And if you exclude energy, that would have been about 120 basis points higher. So that's the raw performance.

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

And in the S&P, it was up 1 in chance.

Martin Kelly
Chief Financial Officer

And then if you look at the sort of the construction of the book, it obviously depends on what we sell. For each of the 3 key funds, they're all at a different point in their maturity. Fund VI is about 2/3 public, Fund VII is about 1/3 public and Fund VIII is all private. So each of those companies has its own story and will be managed to an exit that's appropriate for the company. So it's hard to sort of say we're at the low as a percentage, public as a percentage, but it could certainly [indiscernible].

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

Well, the color I would add to that is, obviously -- I mean, as we've said publicly, and as you've noticed, that we've been through a pretty significant -- realizations have been exceeding investing for several years now for 3 or 4 years. And so that's -- you're at the tail end of a large realization cycle, and you're now into the build value cycle on a relative basis. And so what happens is that you're -- the percentage of public goes down because you're the public companies that you were midstream and exiting kind of -- you don't have as many of those because they're private, because you just bought them. Plus, the distress cycle hasn't been as productive recently. And so we sold a lot of public debt securities and don't own as many of those on a relative basis. So obviously, I can't predict the future. What Martin's saying is absolutely true. But my guess is we're sort of in and around a low point, I'm not saying it couldn't go a little lower. But based on the overall big picture fundamental that I've just laid out, I would expect it to go back up over time.

Martin Kelly
Chief Financial Officer

And in terms of the company performance for revenue and EBITDA, it's really a continuation of what we've talked about in the last quarter or 2. So in 12 months Q1 -- on 12 months Q1, revenues were up

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1.6% across the whole portfolio. And that was up in both industrials and non-industrials, which is how we break it down. EBITDA was up significantly. It was up 8.5%. So that's just -- the headline there is organic growth in revenues and more active cost management.

Operator

Your next question comes from the line of Kaimon Chung of Evercore ISI.

Kaimon Bryan Chung
Evercore ISI, Research Division

Josh, just curious if you expect bulk selling of the NPLs in Europe. And I'm also just curious why the interest expense moved out of the Management Business and into the Incentive Business?

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

Okay. So you -- I think you asked about whether the NPL business is going to grow over time and what's going on with it. Certainly, in the short run, yes, the NPL business is going to grow over time. It's been a good business for us. I'd say in the very short run, it slowed down based on some of the actions taken by the EC, which took some pressure off the banks, but we have a number of transactions going on right now. And that's a business that we're very differentiated in. And we have 1,000 servicing people. We're seeing sort of opportunities even today. They're shifting a bit towards real estate, back nonperforming loans, but continue to grow that business.

Martin Kelly
Chief Financial Officer

And on the interest expense, our debt principally funds our balance sheet. And for both ENI and ENI purposes, we include the earnings on the balance sheet in the incentive company. And so we reclassified the interest expense to align with that.

Operator

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

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

I just had 2 of them. First, on the carried interest, I'm on Page 15, just kind of curious, the accrued carry -- the net accrued carrying credit, I mean, If you look at that as kind of the -- it looks like the profit shares are pretty high on that relative to kind of the other segments. Is there anything -- is that -- should we expect that that's really kind of the rate going forward for credit or is there something specific to the mix currently that's driving the net down?

Martin Kelly
Chief Financial Officer

It's a mix issue. It's a quarter that has 0 net carry. And so when you have funds that are both up and down and better within that number and different carry -- sorry, different profit-share rates. The resulting profit-share ratio across the whole thing was abnormal.

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

But I mean, think 40%. I mean, it's pretty standard.

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

Okay. And then the second question is going to mid-city, and I know we've talked about a little bit on the last earnings call, but just to try to understand the Apollo relationship, obviously, there's the -- you

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manage the assets, you get the Athene-like managing fees, which you've talked about, but you also mentioned, Josh, that there's some equity upside. I mean, should we think of this that's longer-term, that's similar to Athene, and that maybe somewhere down the road, you also get paid in options or equity and that gives you some upside to MidCap down the road?

Martin Kelly
Chief Financial Officer

Yes, it's down the road. So we earn a management fee, paid in cash on the assets subject to a cap, and that's the predictable amount. We also have a promoted interest in the structure, which is depending on that business to successfully growing over time. So it's something that we'll monetize at some point, we expect, but not for some years.

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

And we have warrants. So we have all of it. So the answer is, yes, you should think about it exactly like Athene kind of broadly. And we'll think about what we -- there seems to be a lot of -- I mean, at this point, obviously, there's $2 billion of equity. We think we have $5 billion to $7 billion of buying power. It's not huge right now, but it is something that we expect will grow very quickly. So maybe we'll try to provide some enhanced disclosure around it, around the sort of -- that make it a little more transparent. Let us think about that.

Operator

That concludes the Q&A portion of today's call. I will now return the floor to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Yes, I just want to say thanks, to everybody, for joining the call today. And as I said earlier, if you have any follow-up questions, please circle back to Noah Gunn or myself.

Operator
Thank you for participating in the Apollo Global Management's 2015 first quarter earnings conference call. You may now disconnect.

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