S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

FQ1 2016 Earnings Call Transcripts

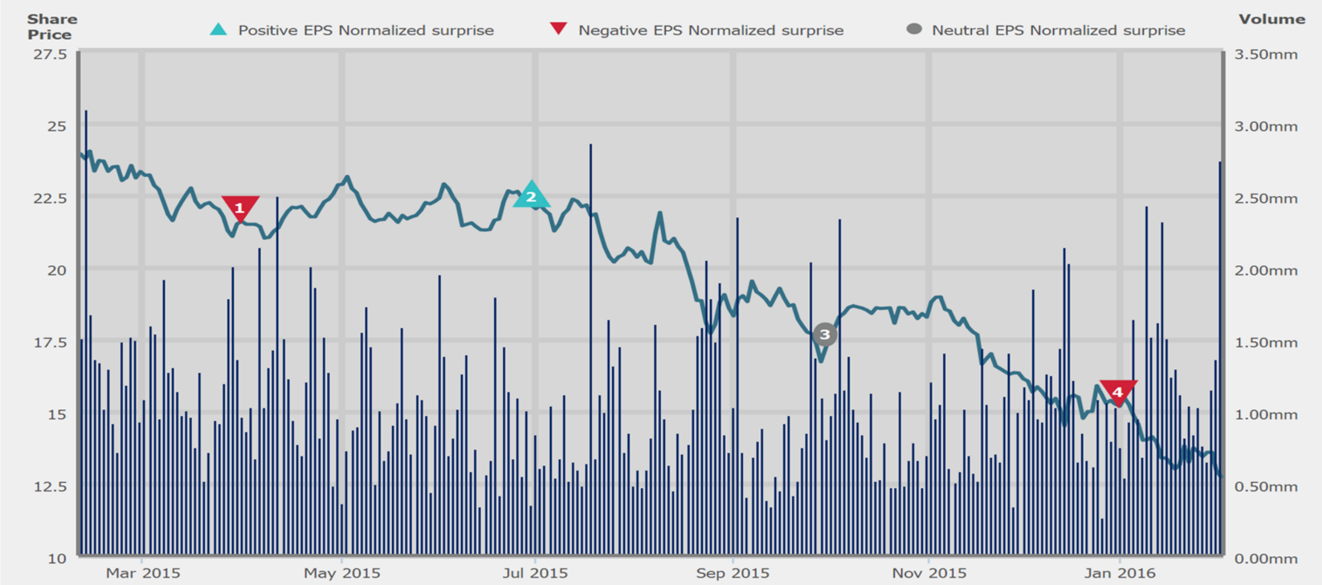
Thursday, May 05, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.04	(0.18)	NM	0.39	1.29	2.03
Revenue (mm)	240.97	120.83	(49.86 %)	346.94	1342.72	1774.97

Currency: USD

Consensus as of Apr-28-2016 7:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.36	0.23	1 (36.11 %)
FQ2 2015	0.35	0.38	2 8.57 %
FQ3 2015	(0.11)	0.26	NM
FQ4 2015	0.26	0.08	3 (69.23 %)

Call Participants

EXECUTIVES

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Co-Founder, Senior MD & Director

Martin Kelly
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Presentation

Operator

Good morning, and welcome to Apollo Global Management 2016 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. Sir?

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.

Earlier this morning, we reported a non-GAAP economic net loss of $0.18 per share for the first quarter ended March 31, 2016. Apollo also reported distributable earnings to common and equivalent holders of $0.25 per share for the first quarter, all of which was declared payable for the quarter's distribution.

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, which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We'll also be discussing certain non-GAAP measures on this call, which are reconciled to GAAP figures in our first quarter 2016 earnings presentation.

As usual, if you have questions about any information in the earnings release presentation or on this call, please feel free to call Noah Gunn or myself. 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. Amid a volatile backdrop during the first quarter, where equity markets pulled back meaningfully and then rebounded, spreads widened and then tightened, and appetite within the financing markets moderated and then returned, Apollo had one of its busiest capital deployment quarters ever. The funds we managed together with co-investment partners deployed or committed nearly $8 billion in aggregate across a range of investments. By leveraging the firm's integrated platform, our ability to embrace complexity and choppy markets like those we experienced in the first quarter, create the type of environment where Apollo tends to thrive. Capitalizing on dislocation while others are often sidelined by it.

Due to the locked-up nature of our capital and ample dry powder across the platform, we were well positioned to put our skill set and contrarian approach to work for our investors. In credit, we deployed capital on a variety of debt securities at attractive prices, but have since traded up in many cases.

In private equity, we were very active during the quarter. Contrary to what some may think when traditional sources of capital in the financing markets seize up, this can actually work to our advantage. While it may be more difficult to get transactions over the finish line, it can lead to more attractive outcomes. Notable transactions announced during the first quarter include ADT, The Fresh Market and RegionalCare's acquisition of Capella Healthcare. Each of these deals is emblematic of Apollo's differentiated investment capability. And I'd like to elaborate further on a few, specifically.

In the case of ADT, which just closed on Monday, the funds we manage, we were able to invest in the leading provider of home security and automation services, combining Protection 1 and existing Fund VIII portfolio company with ADT. In aggregate, this transaction had a combined enterprise value of approximately $15 billion, making it one of the largest sponsor-backed transactions in the past decade and the largest year to date. The combined business is projected to generate over $4 billion in annual revenue, have more than 20,000 employees and serve approximately 9 million customers across the U.S. and Canada, equating to approximately 25% of the monitored home security market.

Through our broker-dealer affiliate, we were able to provide a creative financing solution despite difficult markets. This included accessing sizable, nontraditional sources of debt and preferred stock capital from a large legal -- a large limited partner and an affiliate of Koch Industries. The deal also required an investor with the size and skill of Apollo to be able to speak for the $4.5 billion of equity contributed through the funds we manage and our strong network of co-investors.

In the case of Fresh Market, Fund VIII pursued what we believe to be an attractive, high-end specialty grocery business, operating 180 -- 184 stores across 27 states. We believe there is a significant opportunity to enhance the brand and merchandise offering to make The Fresh Market a primary destination for shoppers.

Our team at Apollo has had the good fortune of having executed a number of transactions in the consumer food industries, including Sprouts Farmers Markets, Smart & Final, Hostess brands and General Nutrition Centers, among others. Each of these transactions has undergone a significant transformation under the strategic guidance that we bring, and we intend to bring that experience to bear at The Fresh Market.

In addition to these 2 take private transactions, we have also been active on a handful of distressed situations, even though the broader markets may not be in distress at the moment, they're usually pockets of distress in certain industries at any given time. One distress for a controlled deal that was completed during the quarter was Warrior Met Coal, formerly known as Walter Energy, which owns, what we believe, are 2 of the 3 best mines in the U.S. Although it's a relatively small transaction, it highlights the flexibility of our investment approach across Michael -- market cycles and industries. We're excited about all of the recent investments and believe we're building a strong portfolio of Fund VIII. Even in the high-priced private equity environment we've seen in recent years, we are maintaining our value-oriented discipline to buy right, which we believe is the single biggest determinant of value creation for an investment.

We're pleased to note that Fund VIII is now approximately 50% committed when including quarter-to-date activity. And the portfolio has been constructed with an average creation multiple of approximately 6x enterprise value to EBITDA, meaningfully lower than the industry average at approximately 10x. The commitment level means that Fund VIII is now slightly ahead of pace.

I'd like to continue the call by providing some commentary around asset growth and fundraising. We generated $23 billion of inflows across the platform over the past 12 months, including $4.5 billion in the first quarter. The quarter's activity was driven by the following: first, new or add-on managed account commitments totaling $800 million, which is an area of continued interest from our LPs. Our pipeline remains strong and we are in active dialogue for additional mandates. By providing investors with holistic, unconstrained credit accounts targeted to their needs, we believe we are providing a differentiated solution.

MidCap, our middle market direct origination platform, added roughly $600 million during the quarter, bringing total assets under management to nearly $6 billion. It's worth noting that MidCap has only had cumulative losses of 5 basis points since inception across more than 400 discrete transactions. So performance is strong.

Our inflows during the first quarter also included approximately $200 million for our second natural resource fund, bringing total commitments to approximately $2 billion, and the fund is continuing to raise additional capital. We held a $250 million first closing for a new fund we called Special Situations. This fund is a product expansion within private equity that will seek to capture ideal generation across the platform, and invest in opportunities that we believe are attractive, but typically fall outside existing fund mandates. Examples of investments that we expect to make through this Special Situations fund could include longer-dated private equity, royalties, infrastructure and minority investments.

In addition to these offerings, there are others worth noting. We've commenced marketing for the third vintage in the European Principal Finance Fund series, which is primarily focused on buying portfolios of assets and businesses from financial entities -- institutions in Europe. It's predecessor is a 2012 vintage fund, which received $3.5 billion in total commitments.

We've also launched the fund-raising process for the third vintage fund in the financial credit investment fund series. A credit drawdown product, which focuses on insurance-linked securities, it's predecessor is a 2013 vintage fund, which received $1.6 billion in commitments.

And lastly, we're continuing to grow our emerging markets corporate debt focus strategy, which is now nearing $1.5 billion. We believe that this strategy is well positioned for future growth in an addressable market that is as large as the U.S. high-yield market.

Before I turn the call over to Martin, I'd like to reiterate our focus on enhancing the significant and predictable free cash flow generated by our Management Business. As we've discussed in the past, we believe that our current degenerating assets under management and expense base that -- with those 2, we can generate approximately $0.25 or more of after-tax cash flow per share on a quarterly basis. Over time, through continued growth of our AUM as well as our ongoing efforts to enhance our already strong margins, we expect the $0.25 of cash per share each quarter to continue to grow. The after-tax cash flow from our Management Business is important since it is a reliable source of cash quarter in and quarter out, regardless of whether we have any significant realizations from the funds we manage as was the case in this quarter, where we had none.

Now I'll turn the call over to Martin for some additional comments. Thank you.

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again, everyone.

Starting with our cash distribution, the $0.25 we declared today was driven by the relative cash flexibility [ph] of the Management Business, as Josh has highlighted, and reflects our commitment to distribute substantially all of the cash flow generated each quarter except for what may be deemed necessary or appropriate to run and grow the business.

For comparability purposes, I will speak to the quarter's economic earnings, excluding the impact of last quarter's legal reserve. We earned $82 million of economic income in our Management Business during the first quarter, down from $96 million in the fourth quarter as adjusted. The decrease was driven by lower Management Business revenues, largely transaction fees and sequentially higher expenses, largely compensation, which normalized from a relatively low level in the fourth quarter and reflected the impact of headcount growth year-over-year.

Turning to the Incentive Business. The economic loss during the quarter was largely the result of an unrealized decrease and the valuation of Athene, which was driven by the depreciation of publicly traded comparable companies in the life insurance sector. Recall that as Athene approaches its goal of becoming a public company, its quarterly evaluation will reflect market changes in peer valuations, absent any other company-specific drivers.

The 11% reduction in Athene's valuation quarter-over-quarter resulted in a 16 -- $67 million unrealized loss within other income as well as a $56 million unrealized net carried interest loss from AAA and related accounts. Resulting in an aggregate drag on first quarter E&I of approximately $0.30 per share.

It's worth noting that we're seeing an upward trend in the public comps quarters to date with mid-single digit average appreciation.

In private equity, our core funds appreciated modestly during the first quarter due to 2% appreciation in private holdings and positive marks on public debt positions, partially offset by 6% depreciation in public equity portfolio company holdings. It's important to note that these overall performance measures represent a blend of differing trends among our flagship funds.

Fund VI was down 5% in the quarter, Fund VII was also down 5% and Fund VIII was up 9%. Each of these funds is in a different stage in their life cycle. Fund VI is a 2006 vintage fund with approximately $3 billion of unrealized investments in the ground, 75% of which is public securities. There are about 6 material investments remaining, the largest of which is Norwegian Cruise Lines, representing 40% of the fund's remaining value.

Fund VII is a 2008 vintage fund with more than $4 billion of unrealized investments in the ground and 28% represented by public securities, suggesting the seasoning process is ongoing. There are about 12 investments remaining, the largest of which is McGraw-Hill Education, which has an S-1 on file.

Fund VIII is a 2013 vintage fund that is actively deploying capital and performing well in the 2.5 years since inception. There were about 16 investments in the fund at the end of March, and that figure continues to grow with the recent activity that Josh mentioned. Since Fund VIII is not yet in a carry earning position, the fund's positive performance during the quarter is not yet being reflected in the income statement. However, the fund's net IRR is now in positive territory and only needs to appreciate by another 5% for the fund to begin accruing carry.

In credit, the investment performance of the funds we manage was positive during the quarter, up 1.1% on a gross basis and up 0.9% on a net basis, excluding the non-subadvised assets of Athene. Given the choppy market backdrop during the first half of the quarter and the stress observed in certain sectors, we are pleased with the overall performance of the business in producing positive returns across fund categories.

During the quarter, $6.1 billion of credit AUM moved back into a carry-generating position, bringing the amount of carry-generating AUM in credit to $23 billion at the end of the first quarter. The shift was primarily driven by positive performance in credit hedge fund assets and CLOs.

Lastly, on the Incentive Business, there was a discretionary incentive full compensation accrual in the quarter of $18.5 million within realized profit-sharing expense, which drove an elevated profit share ratio in the quarter. As a reminder, the firm takes a long-term view with respect to the discretionary components of incentive compensation and will monitor its overall level relative to the fund's incentive-based earnings over an extended period of time.

On our prior earnings call, we explained the rationale behind our decision to adopt a share repurchase plan. During the first quarter, we repurchased 2.6 million shares with approximately $35 million of capital. This included a 1.6 million shares through net share settlement of employee equity awards and 1 million shares repurchased in open market transactions. We continue to believe that share repurchases offer a complementary approach to returning capital to our shareholders that will enhance long-term value. And we will look to continue making progress on the plan on an opportunistic basis over time.

We expect the timing and amount of additional repurchases will depend on a variety of factors, including market conditions and other potential uses of capital.

Lastly, I'd like to just flag a couple of AUM-related movements that we expect in the near to medium term. Due to the previously announced pending transaction in which ARI, the commercial mortgage REIT that we manage, will acquire AMTG, the residential mortgage REIT we manage, we expect the sale of mortgage assets and securities at AMTG will result in a decline in total AUM of approximately $3 billion when the transaction closes, likely in the third quarter. Because most of the reduction relates to non-feepaying leverage, we expect fee-generating AUM to decline by only $300 million.

In addition, due to the recent pickup in PE deployment and strong demand by our fund investors to participate in that activity in a greater way, we expect co-invest inflows to benefit AUM by approximately $2.5 billion in the second quarter.
And with that, we'll turn the call back to the operator and open up the line for any questions.

Question and Answer

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Josh, maybe just first on the deployment that you guys did in the quarter and then the outlook and then maybe separating it and maybe the private equity side versus some of the distress that you saw in credit, I just wanted to get your take -- when you look at the private equity side, you mentioned ADT and then The Fresh Market. You mentioned that you'd be up to 6x type of multiple across like Fund VIII, just wanted to get a sense are you still able to put capital to work at those levels? And then on the distress side, I know it was a short period of time in the quarter, but you guys were pretty active in terms of deploying capital. Just what's the outlook and maybe the fundamentals that drive some of these stress situations because obviously, some markets have rebounded pretty quickly. But I just wanted to get your take on the fundamentals that were driving some of those opportunities.

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

Yes, good questions. So, first of all, we are continuing to put money to work at 6x cash flow like it's actually -- I look at it and I'm quite, I guess, impressed with the team -- our team like they continue to find stuff. I mean, you can do the math on ADT, it was a public company. Actually, we merged it with our company, but that would be under 6. And -- but on average, we're in that 6x. Look, everyone here knows what an Apollo deal is. It's something that where we trade complexity and aggravation for rate of return and purchase price. So we roll up our sleeves and it can certainly be emerging 2 companies together, could certainly be a buildup, could certainly be a corporate carve-out. It could certainly be a distress for a controlled situation. So we are really bucking the market trends where the average multiple now is over 11x if you look at the last quarter. And it's a -- and we've deployed -- we're ahead of pace. So and I don't think we're buying poor companies. I mean, ADT is a huge franchise business. Fresh Market is a great supermarket retailer. We announced, I think we announced another deal in the industrial space on Monday, 2 Ukrainian companies. So that are both big companies. So I think, I'm feeling very good about our ability to be highly differentiated in private equity and the gross returns are starting to go up in Fund VIII and obviously, takes you a little while because of the J curve to get into carry, but we're heading there very quickly. And it's exciting to be able to do it in this environment, which is, amongst the tougher environments or maybe even the toughest I've ever lived in, in terms of private equity. So the team is doing quite well and we're putting capital to work in good and interesting situations. In terms of the second part of your question, just distressed. The distressed market got really interesting for about 3 days and it bounced. November, December, January, February, the markets were pulling back and we were -- we got -- we were buying more -- 2 handful, almost 2 handfuls of distressed names. But the reality is that the markets turned relatively quickly. And at this point, there's -- I think the math is -- I just did a research on this. There's kind of $120 billion of bonds trading below $0.80 and there's $60 billion of distressed debt on the sidelines and 80% of those are natural resource and energy. So outside the natural resource and energy space, we've had somewhat of a V in terms of the markets going down and then coming right back up. But the only thing that I will say is, and we did, I think the firm did quite well at investing in what was a relatively short window, but the reality is, it was just getting interesting in size and kind of the sort of markets are relatively illiquid and people were just starting to get to the point where they were selling chunks of debt that really mattered and then the market turned around. So we're going to continue to plod away in distressed. But stuff can change really quickly, as we saw in the November to February time period. I mean literally, things were going to -- things were getting pretty ugly. And so if you look at the macro outlook out there, that we could talk about that, but the reality is, I think, there's a fair amount of volatility at the L risk and things could turn around. So I think stay tuned, but we're just going to be ready, to take advantage of whatever the market gives us.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. And then just a quick follow-up. Just on the Athene relationship and the growth outlook there, just given the Department of Labor, the fiduciary rule, just wanted to get your guys' sense, on maybe the growth outlook and how you see that business -- maybe like perceiving forward, just given some of the constraints with the rule?

Martin Kelly
Chief Financial Officer

Sure. Thanks for the question. We know the Department of Labor rule is a big topic on investors' minds across financial services. I would say at this point, like other companies in the space, Athene is assessing the potential impact of the rule, they haven't really said anything publicly about it yet. From our standpoint, we think it wouldn't be appropriate for us to comment on how the rule may impact them. We think it would be better to wait for them to comment. So I would say, stay tuned for their next public investor update call, where I'm sure they'll discuss this topic. But I would say, broadly speaking, still remains very excited about Athene, doing a lot of interesting things across a number of different sectors and exploring a lot of different opportunities. So I think we still see meaningful growth opportunities there.

Operator

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

Devin Patrick Ryan
JMP Securities LLC, Research Division

Just wanted to get an update on the health of the financing market today relative to the start of the year. I know you guys had noted that it was effectively shut down. So just curious, kind of how it is today and how that's influencing your backlog of opportunities? And also, just on the backlog, the size of the ADT deal as you guys highlighted, I mean, is that aberration or could we see some other large deals like that in terms of what you guys are looking at?

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

Yes. So Just taking them in order. The financial markets are back. They're back in all their glory. Literally, I mean, again, things were relatively shut down for a few months. And now, we concluded a number of transactions based on, kind of having a rough expectation or an expectation of a relatively rough financing market and pricing that in. And then sometimes, having a little luck is good because the deals -- we priced Fresh Market, we priced ADT. Obviously, we are still -- we still have a pipeline of deals to go into the market. But all of the deals are getting done ahead of expectation -- ahead of our expectations when we did the deals. And so the financing markets, the high yield market was down 5 and now it's up 6. It was down 5 last year, it has been up 6 or so in the first 4 months. So there's still is a bit of a bifurcation, but really, even CCCs are rallying. So things are -- the good times are rolling again at least for this month. But you can't really predict what will happen, given the relatively muted financial, fundamentals of the economy. But very aggressive monetary technicals out there in the world. And there's sort of a battle between fundamentals and technicals and one month fundamentals wins, and then another month technicals wins. And then you just have to be really on your toes to navigate what's a very challenging environment. In terms of -- what was your second question? Do you mind repeating that?

Devin Patrick Ryan
JMP Securities LLC, Research Division

Sure. Just kind of the size of the backlog and just within that. Is ADT kind of an aberration in terms of the absolute size of that deal?

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

Yes, ADT is a -- I'd say is an aberration. I mean, it's just -- it's pretty hard. So if you think about it, it was a $15 billion deal, but we had -- there was a whole bunch of debt that we rolled, based on its terms, and then we went outside the financing markets and capped into Coke industries in a large LP to privately play some of the debts. And so when you -- and then we had an existing company that had some debt of its own, it didn't have to be replaced. So when we you look at it, like we only raised, kind of 3 plus billion dollars of debt capital. I mean, obviously brought -- we brought $4 billion to $5 billion of equity capital to the table. But -- and so that's really the governor. The governor is that the bridge market, the ability to get committed transactions really taps out. In some months, it's $3 billion. I mean, it was very hard to get $3 billion of bridge commitments there. So like when you start to put a normal equity cushion under that, you get to like $5 billion. And so unless things change, that -- it gets a little harder to do deals above that level unless you're bringing -- unless it's a special situation to bring a lots of equity to the table, you're rolling debt, you have to be very creative. And it's not 100% the case. You'll see the odd large deal. But I think like -- if you think in terms of $5 billion sort of being where the financial markets sort of the capacity to absorb bridge facilities taps out $3 billion, excuse me $3 billion to $4 billion, that gives you a sense on how big the deals can be.

Operator

Our next question comes from the line of Glenn Schorr of Evercore.

Glenn Paul Schorr
Evercore ISI, Research Division

Curious, in private equity performance, if you've done any attribution analysis. When you look at last 12 months being down a little bit, it's a bummer. But I'm curious if you've looked at that performance ex energy just first to see how the performances has been outside the energy complex?

Martin Kelly
Chief Financial Officer

Yes, it's some -- we have done the analysis on that, Glenn. It's Martin. Energy was a clear headwind in the last half of last year. And in PE, in the first quarter, actually, it was a very slight tailwind and that was given the construction of the assets we had. And so -- and factors specific to them like reserve estimates as well as, as where the comps moved. But -- and so I think that the non-energy piece has for sure outperformed the energy piece over an LTM sort of period of time. If you then dig into it more, I think it's not surprising that the privates are creating value as they mature across the board and then the publics are sort of up and down with the markets. I think the good news though is, if you dig into what happened in the quarter in VI, with VI and VII, both being down, but VIII being up and on the road to getting into carry, there is a path forward to getting Fund VIII into carrying and producing cash. Now that's obviously going to depend on the new investments, sort of creating value. So it will take a bit of time. But the newer companies in the book across the board are performing nicely and having some markups.

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

Yes, I mean to put it in context, VI was a $10 billion fund that we close to doubled and there's $3 billion left. So you're talking about round numbers, $3 billion out of $20 billion, that's less. VII was a $15 billion fund that we more than doubled. So call it, $35 billion or $40 billion, between $35 billion and $40 billion and you're talking about $4 billion left. And so really, this is like the tail of a very large dog and you get some idiosyncratic performance. It has nothing to do with -- I mean, in other words, you're sort of dealing with the positions that are left. Now the good news is, we've invested $9 billion of $18 billion, the investor committed $9 billion of $18 billion in VIII, and VIII is kind of, like really looks -- really strong relative to the early kind of returns in VIII. You can look at the gross. I think we published the gross returns, I don't want to throw them out and they're very high in a pretty difficult -- they're well north of the equity markets, well North. And so VIII is coming and yes, we're dealing with what we have left in VI and VII and Martin mentioned that Norwegian Cruise Lines trades up, it trades down, it trades sideways and so we get some volatility. So it is a bummer in some sense, but in another sense, all that became dividends over the past couple of years. So we and hopefully, a lot of people on the call, have reaped the benefit of it.

Glenn Paul Schorr
Evercore ISI, Research Division

Yes. I get that. Just one quick follow-up to Mike's question. I know you can't say much on Athene, I heard you loud and clear. But am I reading it right that the big issue for them is the inclusion of fixed-indexed annuities inside the BIC because that was part of Athene's bread and butter? That's the way I read it and I'm just not sure if it's -- how that impacts their organic growth and things like that.

Martin Kelly
Chief Financial Officer

Yes, I think that's really where they're assessing what the impact is. You're right, that it was the inclusion of the fixed-indexed annuities which really came as a surprise to the industry that late inclusion. And so they're just absorbing that and assessing what it all means.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Just Fund VIII, the negative 6% IRR to a positive 4%, obviously, you're in the J curve so we would expect big swings, but it was sort of a pretty lousy quarter. Anything you can help us on in terms of the big swing in IRRs, which positions may be happened to be doing quite well? Or, which may not? But really focused on what's working in the fund?

Martin Kelly
Chief Financial Officer

Sure. So Kenneth, there was actually some pretty decent mark-ups across the book, including on a particular energy position that we earned [ph] , and that we had marked down a lot in Q4 and had some reserve funds and some comp increases during the quarter. So that was a factor, but I would say really across the book, the portfolio -- if you look at the underlying revenues and EBITDAs there, they're performing well. There's really nothing in that portfolio that we're concerned about. And it was a mark-up across the book. And the 4% that you mentioned is net, it's 18% gross. And so we have -- we have 5% to get to carry. We have 8% to get through catch-up carry as we look forward. Obviously, adjusted for the recent money that's been put into the fund.

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

Yes, I mean, I hate to -- I don't want to oversimplify, but when you're buying at 6% and the market's trading at 11%, you make a decent amount of money on the buy. I mean, you just do. And then when the companies perform, it's sort of starts to impact the valuation.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. Great. And then maybe continuing on performance. In credit, in the permanent capital vehicles, I think there's $16 billion or so where you disclosed you need about a 19% of return to kind of get back to carry, which feels sort of like a big assumption. But maybe like walk through what you think needs to happen to get back that 19% return? And maybe why the deficit got so big in the first place? Is it exposure to certain sectors, which have hurt? Or color there would be great, too.

Martin Kelly
Chief Financial Officer

And Ken, your question is probably -- the permanent capital vehicles, not the drawdown funds, right?

Kenneth Brooks Worthington

JP Morgan Chase & Co, Research Division

Yes. Let me see if I can get to the page. The permanent capital vehicles ex Athene non-subadvised -- no, I'm sorry. It's the $16 billion of credit. Slide 8.

Martin Kelly
Chief Financial Officer

Okay. So that's -- that will include a series of the sort of drawdown-style funds plus the BEC, plus the REITs and reflects -- it's the yield year end of the credit spectrum as we define it, and reflects -- it reflects the last 2 or 3 quarters that we have lived through in terms of March. Some of that has come back in Q1. Some of it came back a bit further in April. But it represents the lowest sort of tranche, debt pieces that we buy, which got hit pretty hard in Q4 and the early part of Q1. Also, within that is about $8 billion of CLO AUM. And that's actually a somewhat mix story. It contains new CLOs that are just seasoning and will take time to get to carry, but it also includes some older CLOs that are sort of burning off.

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

But I would say, I would turn to someone and say look there's $23 billion in carry, right? On the $16 billion, it's out of carry. I'd say that energy and natural resources haven't helped that. And so we would need a rebound -- I think those sectors have been, I'd say, the bigger drag on that. And we need a bit of a rebound there. But make your own assumptions. There's $23 billion in, there's $16 billion that we have some work to do. I think it could happen, but there's no question that we have some work to do. And then we're, kind of originating lots of new opportunistic accounts. So when we talk about in the press release, whatever the $700 million or $800 million of new managed account, kind of like money, that's likely to be you're starting at day 1. And so it's not in carry, but it's kind of right there.

Operator

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

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Just one more on Athene, guys. Can you -- I understand you guys can't really get into the future and how the business will evolve. But help us understand, I guess, how much of their product is in qualified accounts today as well as how much of sales over the last couple of years has come from qualified accounts?

Gary M. Stein
Head of Corporate Communications

Unfortunately, I don't want to seem like we're ducking questions here, but it's just not something that they have disclosed publicly. As you know, they're on a path towards filing their S-1, towards their IPO and you can expect that there'll be disclosure included in their filings that I think will help answer some of the questions you're asking. But again, I don't think we should be the ones to disclose that before they have chance to put it on the context of their full business.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Understood. Fair enough. On to Apollo's business, I guess. When you guys talk about the fund raising opportunities and clearly the pace of deployment is extremely robust this quarter, does that accelerate any of the fund raising opportunities you see over the next 12 months or so? I know you highlighted the $2.5 billion co-invest that, I guess, is supposed to come in next quarter or, I guess, this quarter, second quarter. Talk to us a little bit about the fee rates and then on that $2.5 billion and also just how we should think about the fund raising outlook for the next 12 months.

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

Yes. So the fee rates -- I mean, I don't think we really disclose what we charge co-investors. But it's certainly not going to be like private equity style kind of incentive fees. But I'll leave -- I'll leave the specific sort of deal by deal. The fund raising outlook in the next 12 months is good. I mean, I think you guys are seeing the pace we're running at. I think we expect to continue to run at that pace.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

I guess what I'm trying to get to is that the $0.25 a quarter in management fee business earnings. How much runway does that have over the next, call it, 12 months? Is it -- should we be expecting like a $0.30 kind of number or is it going to kind of stay in the current run rate?

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

I appreciate what you're asking, but we don't really give forward guidance. But I think by talking about it in the script, we feel pretty comfortable with that as a minimum.

Operator

Our next question comes from the line of Patrick Davitt of Autonomous.

M. Patrick Davitt
Autonomous Research LLP

This is the first quarter where there was a pretty big disconnect in the broader PE portfolio performance and the carry number that you reported. It sounds like part of that is because of how well Fund VIII did relative to the other PE funds. But also, this AAA mark, was it more of the Fund VIII disconnect or the negative mark in the AAA stuff? And what exactly is driving that negative mark because I don't remember that being called out as aggressively as you did this quarter.

Martin Kelly
Chief Financial Officer

Yes, it's related to the AAA carry. So let me just go through the pieces. So Fund VIII is out of carry. So it has no impact on our reported earnings. Fund VI and VII were both down 5%. And between the 2 of them, sort of after profit share costs, it created an E&I loss of about $35 million. So the rest is attributed to AAA. The arrangements, the carry arrangements we have with AAA are complex, there's several of them, they have different hurdle rates and profits -- and participation rates. And they don't apply to all of the assets in AAA. So it's not a linear relationship with the price that we value Athene at. But collectively during the quarter, it had about a $55 million negative impact to the PE carry.

M. Patrick Davitt
Autonomous Research LLP

But it is related to the mark on Athene, not some assets in the portfolio, right? Is that what you're saying?

Martin Kelly
Chief Financial Officer

It's related exclusively to the mark on Athene. It's just the way that it's derived, comes through a couple of different structures.

Gary M. Stein
Head of Corporate Communications

And that's why we thought it would be helpful to give that just sort of, sum it all up and simplify and just say that given an 11% decline in the comps stat, that had essentially an approximate $0.30, $0.31 hit to our numbers across the PE and credit segments.

M. Patrick Davitt
Autonomous Research LLP

That's very helpful. And then just as a quick follow-up. The escrow footnote, and I apologize if you've answered this on past calls. Why is it that there's $111 million of net profit sharing in escrow, but you would only get $12.5 million into the GP in the event of liquidation? Or am I reading that incorrectly?

Martin Kelly
Chief Financial Officer

I think that, that is driven by Fund VI. So Fund VI is escrow is now below 100%. It's 89%. And there's some cash sitting in the escrow account that was trapped when assets were sold last year. So if everything were sold at the March 31 marks, then a lot of that cash sitting in escrow will go back to the LPs instead of coming back to [indiscernible] .

M. Patrick Davitt
Autonomous Research LLP

So if it were over 100?, the 2 numbers would match?

Martin Kelly
Chief Financial Officer

Yes, that's right. Sure.

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

The only other point, I mean, just this point keeps coming up. There is, and again, you guys can do your own projections on Fund VIII, like we obviously don't give forward-looking statements. But there's 9 -- there's about -- and then by the time that all the stuff closes that we've signed up, there's roughly $9 billion of carry-eligible AUM kind of out there when Fund VIII crosses its hurdle. And so I don't know presuming things keep going okay, help is on the way.

Operator

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

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Josh, a question for you on the credit cycle in terms of the investment strategy in the credit business. Obviously, we've seen these very wide volatility of spreads. Does it drive you to be more opportunistic in taking advantage of short-term movements and then maybe if you can just, I know it's always hard to predict, but whether the next credit cycle will be more episodic in that nature versus more of a longer-term drawdown in the cycle that would lead you to [indiscernible] longer-term periods.

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

So just taking the first one first. It does. I mean, I think that you have to be really good at your craft to make money. So what we do is, we tend to get all of our ducks in a row. We file lots of credit and then when they hit our price targets, we buy them. And it's actually even harder from the point of view that the liquidity in the market is actually much lower. And so things gap down, but they don't really trade very much other than here and there. It's now become a much more institutional market. So things will gap down from a price point of view and it will be hard to buy and then it will gap back up. But yes, you have to literally be there and ready for the kind of days when [indiscernible] may get negative. And so yes, you have to be alert -- you have to be more opportunistic. And then when things trade up like crazy, you have to be willing to sell. And so you just have to be managing the volatility a lot more aggressively than in the past. In terms of like the future credit cycle, it's just so hard to say. I mean, I think that when you look at it -- I think there will be -- I just think there will be more volatility in the sense that the traditional people that dampen volatility, which were the banks, they just have less capital up, right. So now it's -- when things gap, it's firms like ours that are stepping in. And so that we need to get paid for it. And so there's more volatility down and then there's probably more volatility back up, presuming that the monetary policies that exist out there, it creates this bid for everything at some level because people need to put money out, not us. And so but it's hard to know. I think at some point, if it were to get more negative, yes, then I think there would be, at this point, 35% of the fixed income market is daily liquidity vehicles, right? So if it were to break to the point where, retail started pulling out of those vehicles, then -- and people got really negative, there would be -- it could be an extended down. But I mean, it's so hard to predict based on what's going on.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Right. It sounds like you can certainly be more opportunistic than you were in prior cycles potentially given the lack of liquidity in the markets?

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

Yes.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

And then just maybe switching gears. Just maybe talk a little bit deeper about MidCap and the long-term strategy. I mean, you are up $6 billion now. The performance is tracking well. Do you have a sort of a long-term view of how large that could be and the capacity for them to deploy capital?

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

Yes, we haven't really thrown out like a number, but it could be quite large. I mean, this is in the sweet spot. This is kind of middle market lending to corporate America in multiple segments. So certainly, as -- I mean, we've seen GE and kind of all the big banks get out of that sector, the likes of CIT and Heller and others are now no longer as -- either they're gone or they're not as significant. And there's just a huge opportunities these companies need capital. And so MidCap could get much larger than it is today and you're able to look at how quickly we've grown it to $6 billion. And we're going to hope to continue to move it along. But we haven't thrown out a specific size of it, but it's a very large market.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Do you think you could keep that pace up -- the pace of going from 0 to 6? Or is that too tough to say right now?

Martin Kelly
Chief Financial Officer

I think the benefit of the GE transaction has diversified the industries that the MidCaps lending to. And so the organic -- organic origination volumes are now broader across -- health care is now less than -- that health care broadly defines now less than half of their book and will continue to shrink. They have also done a couple of capital raises, which allow them to take bigger positions and then syndicate it down. So we have net growth ambitions, which are quite accretive over time, considering -- even considering syndications and runoff of the book.

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

And then that the reason it's hard to answer the question, there's also a chunky stuff out there that to buy, such as GE. But look, I think the organic growth -- I think we should be able to continue the organic growth consistently with what you're seeing. And then we're going to keep trying to find the GE-type transactions to do.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Another one on Athene. Can you guys let us know where you have that position marked, maybe on a price-to-book basis? And how that mark compares to some of the comps you guys look at?

Martin Kelly
Chief Financial Officer

Sure, Chris. So we go through a process of looking at public comps that span both large-cap and small mid-cap companies that operate in the same space. And then we sort of fit Athene's ROA -- ROE to the comp set and derive a multiple. And then given that it's private, and there will be a lock-up post IPO, we apply a discount to the public comps. When you do all of that, you get to a book value multiple -- a GAAP book value multiple, which is just slightly more than 1x -- it's 1.02x at March 31.

Gary M. Stein
Head of Corporate Communications

That was down from 1.18x quarter before. So again, it's really just reflecting the fact that the comps were down so sharply throughout the quarter.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Got you. And then another follow-up on the outlook for the Management Business. And so it sounds like you guys are pretty optimistic on the fee outlook. Really, just wanting to know how we should be thinking about expense growth for this year? Whether we should be expecting a decent amount of operating leverage as you guys perhaps grow the management fee line?

Martin Kelly
Chief Financial Officer

Yes, we do expect leverage to improve. I think on the non-comp side, the numbers have come down in the last year or 2. I think what you're seeing now is as best we can tell, sort of steady state on comp with one exception being placement fees, which are lumpier and more difficult to predict. On the comp side, last year, our head count grew by about 12% and that was a buildout across our investment teams and infrastructure to support all that. We have much more modest headcount growth plans this year given that we're significantly done with the buildout. So I would expect comp -- we're only 1 quarter into a year. Lots can play out. But I would expect comps from here to be sort of flat to where it was in Q1, which coincidentally, was sort of where it was in the middle part of last year as well.

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

Yes, I mean strategically, we're looking hard at kind of equating comp and revenue growth at a maximum and trying to get some operating leverage. Obviously, if there are special situations and so forth, you need and people that you really want, you're willing to -- you have to be flexible. But we're now much more focused on kind of keeping these things in mind and generating some operating leverage.

Operator

Our next question comes from the line of Gerald O'Hara of Jefferies.

Gerald Edward O'Hara
Jefferies LLC, Research Division

Just another on fund raising. It sounds like the environment's been relatively good or I guess the outlook is relatively strong. You mentioned Special Situations fund that you are taking to market, and I was curious if you perhaps could provide a little color on the sizing or scale where you think you might be able to take that fund.

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

Yes, I mean, it's clearly, there are opportunities that are sort of private equity like, but maybe are longer dated than a private equity fund, maybe their assets, maybe they're buying a swath of liabilities at a discount along with assets, and maybe they're minority investments. So in terms of sizing, I think it's -- I don't think it's going to be -- I don't think we're expecting this to be a massive number in Fund I. But we're expecting to be able to like spend it quickly and then go back for more. And so I don't know. That's the way I would leave it.

Gerald Edward O'Hara
Jefferies LLC, Research Division

Fair enough. And then just one more on -- it's been a little while, maybe if you could give us an update on where the other retail offering stand? It's still probably pretty early stages and what not. But maybe just early demand or interest or kind of growth prospects within that platform.

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

Yes, I'd say that we continue to focus on retail, and we're building out kind of, we're committed as a firm to making investments and expanding our coverage of retail, our salespeople. We've been spending a lot of time on it. And it does represent kind of 12-ish percent of our investor AUM. And you've seen some of the work we've done with some of the sub-advised accounts. And so but it's early days. We're just hiring people now and so I expect it to be an impact over time. I can't say that -- I can't point to large jumps in AUM. And obviously, had we completed the transaction that we walked away from, it would have been a significant move forward, but now we're just building it organically and it's going to take some time.

Operator

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

Michael J. Cyprys
Morgan Stanley, Research Division

Just following up on Fund VIII. Currently, 50% committed or deployed. Just seems like the pace of deployment here has really accelerated and I think you mentioned some others investors wanting to get in as well on the co-invest. I was just curious how you are thinking about the time frame for a successor fund raise, a Fund IX and if next year would be a reasonable time frame in what you're thinking about in terms of the size?

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

Yes. So next, like the way I would answer that is it's difficult to predict, but if you just look at it, we've done just trend it yourself, right. And then we've done 50% in 2.5 years, right. So that's 20% a year. Generally, as a General Manager, you tend to hit the road when you're greater than 70% deployed or committed, that would put us a year out-ish, but it's hard to predict. And so next year, end of next year, kind of seems like, kind of at least a way to think about it. In terms of size, like and because of our track record, which is 500 to 1,000 basis points higher than everyone else's in the large-cap space, pretty consistently, we can -- we typically have been able to raise the amount of capital that we can deploy. And so we're deploying the Fund VIII, right. It's working fine. And so I'll leave it at that. I don't know how to really answer it. We tend to take that amount of capital that we can spend wisely. And so we look at our pace and investors look at our pace. And we've done this fund in and fund out and so they tend to support what we're doing. And so we'll have to make that evaluation at that time, but that should give you a sense, at least.

Michael J. Cyprys
Morgan Stanley, Research Division

Great. And just a follow-up on the Management Business. It sounded like you may have been increasing your guidance there, but I just wanted to make sure, I heard you right. I think in the past, you quoted about $0.25 a quarter from the Management Business on a pretax basis in terms of what you think you could do, but I thought I heard you say earlier now in terms of what you're expecting that the $0.25 is now after-tax. So just if you could help me with that?

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

Yes. We first of all, we don't give guidance. So we're certainly not increasing our guidance. But to be very clear about that, look, I mean, in my opening remarks said $0.25 after-tax. So like that's in the script.

Michael J. Cyprys
Morgan Stanley, Research Division

And so that's what we should think about going forward? In terms of what you should be able to hit from here?

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

Yes.

Michael J. Cyprys
Morgan Stanley, Research Division

I think in the past, you'd spoken about that on a pretax basis so just thinking between the 2 comments, to me I would take that as increase.

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

So I'm just reading. It says we can generate approximately $0.25 or more of after-tax cash flow per share on a quarterly basis.

Operator

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

Gary M. Stein
Head of Corporate Communications

Thanks, operator. Thanks, everyone, for taking the time to join us on the call today. As we've said, please feel free to follow up with Noah or myself with any questions.

Operator
Thank you, ladies and gentlemen. This does conclude today's call. You may now disconnect.