S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

FQ3 2013 Earnings Call Transcripts

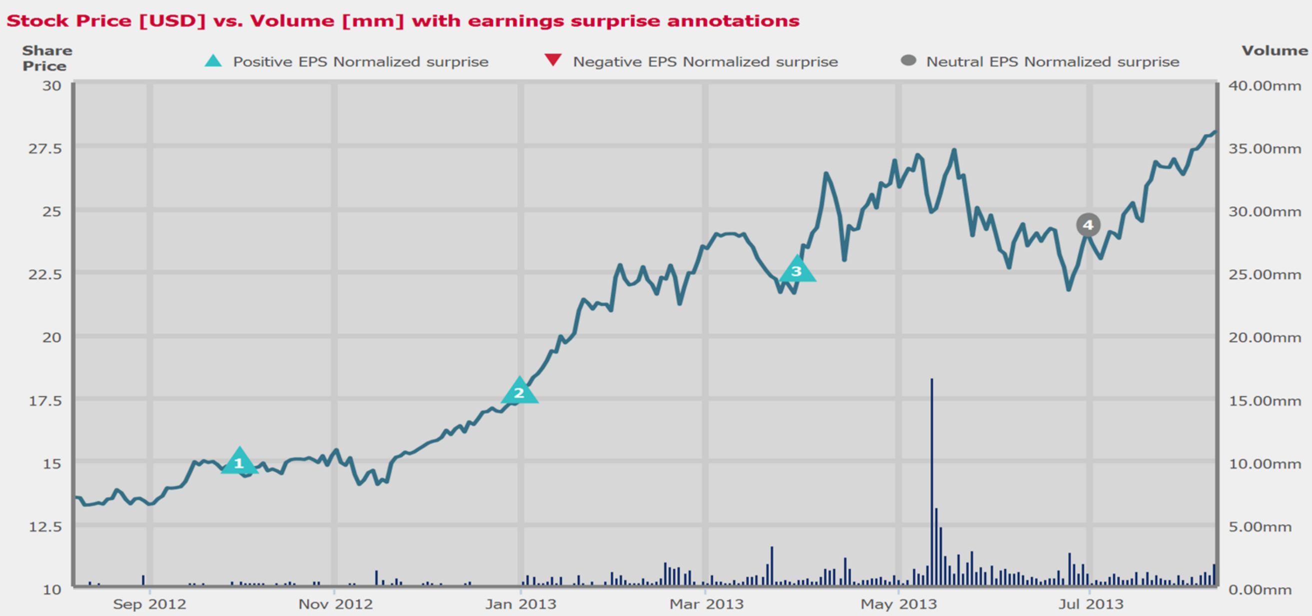
Thursday, November 07, 2013 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.94	1.34	▲42.55	0.69	4.64	3.02
Revenue (mm)	626.54	1132.09	▲80.69	543.84	3031.93	2527.00

Currency: USD

Consensus as of Nov-07-2013 1:36 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	0.74	0.98	▲1 32.43 %
FQ4 2012	1.05	1.69	▲2 60.95 %
FQ1 2013	1.22	1.89	▲3 54.92 %
FQ2 2013	0.50	0.50	●4 0.00 %

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2013 Third 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, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP after-tax economic net income of $1.34 per share for the third quarter ended September 30, 2013, compared to $0.98 per share for the third quarter of 2012. We also have declared a cash distribution of $1.01 per share for the third quarter of 2013. Later on the call, we'll discuss the composition of the third quarter's cash distribution. In addition, we'll provide you with details regarding a change we are making to our distribution, beginning with the fourth quarter. For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $193 million for the third quarter ended September 30, 2013, compared to $83 million for the third quarter of 2012.

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

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

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

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary. And good morning, everyone. We have a lot to cover with you this morning, so I'll focus my remarks around 4 key topics: fund raising; investment performance; realization activity; and Athene. I'll also briefly provide some comments around our businesses, as well as our quarterly distribution.

Regarding fund raise. We raised more than $4 billion of new investment capital across the firm during the third quarter and nearly $14 billion over the past 4 quarters. As we have discussed with you on our prior calls, we believe Apollo continues to benefit from several powerful secular trends that are broadly favoring the alternative asset management industry, such as increasing allocations to alternative investments and the consolidation of limited partner relationships among a smaller number of branded scale players with strong track records such as Apollo. As many of you know, we're actively fund raising for Fund VIII, which is our current flagship private equity fund. I am pleased to note that fund raising continues to progress very well, and as of today, Apollo has received commitments of approximately $12 billion of capital for this fund.

Our success in raising new capital across Apollo's integrated platform is attributable to our strong, healthy relationships, as well as the investment performance of the funds we manage. And during the third quarter, our funds continue to perform well. For example, within our private equity business, the funds we manage have generated a 39% gross and 26% net IRR since Apollo's inception in 1990. In addition, during the third quarter, the fair value of our private equity funds appreciated by 18% as compared to the 5% gain to the S&P 500.

On the realization front, the funds we manage have continued to monetize investments as windows of opportunities permit, resulting in significant realizations and cash distributions for our fund investors and shareholders. During the third quarter, Apollo's funds generated more than $6 billion of realizations, and we declared a cash distribution of $1.01 per share. Over the past 4 quarters, our funds have successfully completed approximately $22 billion of realizations, resulting in total cash distributions to our shareholders over this time frame of $3.95 per share.

We also continue to diversify and grow our business in a variety of differentiated ways, such as our strategic relationship with Athene, which is one of the leading providers of fixed annuities in the United States. On October 2nd, Athene completed the acquisition of Aviva USA. This transformative transaction added approximately $44 billion of fixed annuity product to Athene's balance sheet. As a reminder, all of these Athene's assets are being managed by Athene Asset Management, which is a subsidiary of Apollo. Athene Asset Management provides Athene with a full suite of investment management services, including asset allocation, direct asset management, risk management, asset and liability matching, M&A asset diligence, hedging, and other services typically built in-house with significant supporting infrastructure or provided by a full slate of specialty firms. Athene Asset Management has a team of full-time, dedicated investment professionals with significant experience directly sourcing, underwriting and managing specific investment and non-investment-grade credit in which insurance companies, such as Athene, typically invest. In addition, Athene Asset Management has access to Apollo's broad credit platform infrastructure and more than 250 investment professionals across a myriad of asset classes. Athene Asset Management and its relationship with Athene is just one example of how we are leveraging our integrated platform and scale in the credit sector to grow our business and create value for our investors.

I'd like now to provide you with a few quick highlights across our businesses, starting with Private Equity. We maintained a strong pace of realization activity across our private equity funds in the third quarter, which resulted in aggregate distributions of $4.2 billion. Specifically, these realizations were driven by several capital markets transactions, including secondary share sales of Lyondell, EVERTEC, Berry Plastics, Norwegian Cruise Lines and Countrywide, as well as our fund's remaining interest in Realogy. Additionally, our funds sold a small amount at our holdings in Athlon Energy during its successful IPO in August. And while no shares in Sprouts Farmer Market were sold in connection with its July IPO, this offering was also well received with the price more than doubling on its first day of trading.

Over the past few quarters, we have built significant momentum around realizations, and our funds have continued to monetize investments during the fourth quarter. It's worth noting that last week's $1.1 billion secondary sale of the majority of our fund's remaining interest in Lyondell brings us near the end of this highly successful investment, which, at a realized multiple of invested capital of more than 5x, is the most profitable investment in the firm's 23-year history.

Just to touch briefly on capital deployment within our private equity business. Activity remained light again during the third quarter, but our transaction pipeline is steadily building as we seek to identify idiosyncratic opportunities aligned with our value-oriented investment approach. For example, we recently completed a complex corporate carve-out transaction with Pitney Bowes to acquire their management services business. And as we have noted previously, in the current environment where valuations are relatively high, we will remain disciplined and patient in deploying our fund's long-dated, locked-up capital. We take a long-term view towards capital deployment, which is measured in years rather than quarters, and we remain confident that we will identify ample opportunities for our funds to make attractive investments over time.

Now turning to our Credit business. During the third quarter, we continued to expand our credit platform as we raised nearly $700 million of new capital, driven by our latest credit opportunities fund, which we refer to as COF III, as well as our insurance-based investment strategies. In addition, as we have discussed in prior quarters, our solutions-driven marketing team is engaged in dialogues with a number of clients around establishing strategic managed accounts, primarily focused on unconstrained credit. Through these customized accounts, we're able to utilize Apollo's broad range of credit products to address our clients' investment objectives beyond traditional fixed income. As an example, subsequent to the third quarter, we closed out a $400 million strategic account with a sovereign wealth fund to invest in U.S. and European credit.

We also remain active in deploying capital in a variety of differentiated investment opportunities across the credit spectrum. For example, during the third quarter, our second European Principal Finance Fund agreed to purchase EVO Bank, which is an 80-branch retail bank in Spain. We believe this pending transaction will enhance our investment presence in Spain where our funds have already established a consumer lending platform. This acquisition is an interesting example of the differentiated ways in which our funds can participate in the restructuring of the financial services landscape in Europe. In addition, this transaction also highlights our flexible investment style, where we can leverage our integrated platform in Europe to complete a wide range of transactions with financial institutions, such as acquiring large pool assets, or, as in the case of EVO, strategically acquiring whole businesses.

The breadth and capabilities within Alternative Credit is far reaching, including the corporate securitization market, where we are one of the largest managers of CLOs in the United States. We remain active in this market through the issuance of new CLOs in the U.S. and Europe, as well as through the refinancing of existing CLOs. As an example of our scale in this market, during the third quarter, we completed what we believe is the largest cash flow CLO transaction since the global financial crisis when we refinanced 1 of the existing leverage facilities held by our funds through 2 deals with an aggregate value of nearly $1.8 billion. Although this transaction did not increase our assets under management, it extended the reinvestment window of the underlying assets by another 2 years, positioning us to generate increased returns for our fund investors.

Just to touch briefly on Real Estate. We continue to build this business by leveraging Apollo's integrated platform and capitalizing on the synergies that exist within our credit activities and expertise. We remain active in the real estate debt with our funds deploying $250 million in mezzanine and CMBS investments in the third quarter, bringing the year-to-date total to $1.6 billion. Within equity, we remain opportunistic across property types and geographies with approximately 70% of AGRE U.S. funds base capital now committed.

Lastly, I'd like to discuss the dynamics around this quarter's distribution. We declared a cash distribution of $1.01 per share for the third quarter of 2013. This includes contributions from all the components we've discussed on prior earnings calls. Our regular quarterly distribution of $0.07 carry on interest and dividend income, which was $0.02 in the third quarter; carry on onetime realizations, which totaled $0.84 for the quarter. And lastly, this quarter, we paid out $0.08 from realized gains on our balance sheet investments. As you may recall that since we began reporting the component of our distribution, that stems from recurring carry interest and dividend income, this amount has been in the $0.05 to $0.10 range each quarter. However, as we had noted previously, this component of our quarterly distribution is dependent upon the construction of our overall investment portfolio at any given time and is subject to change depending upon where we are in the market cycle. Due to our significant realization activity over the past few quarters, we have exited many of the investments that have generated the bulk of our quarterly interest and dividend income, and we do not currently anticipate this component of our quarterly distribution to be as significant going forward.

However, the overall breadth and scale of Apollo's franchise is growing in many ways, which is generating more predictable earnings. As a result of our evolving earnings profile, we are increasing our regular quarterly distribution from $0.07 per share to $0.15 per share beginning in the fourth quarter. So on a quarterly basis going forward, you can expect a $0.15 per share regular cash distribution plus an aggregate amount related to all other items, including onetime realizations, realized investment income from our balance sheet and carry on interest and dividend income. As a reminder, Apollo's distribution policy is to pay out quarterly all of the net after-tax cash flow in excess of the amounts determined by management to be necessary to operate our business.

In summary, we delivered strong results in the third quarter, driven by solid gains across our investment portfolio. Our value-oriented, opportunistic and flexible approach to investing has produced a steady stream of realizations and yielded $3.95 of cash per share for our shareholders during the past 4 quarters. In addition, we have continued to attract significant amounts of new capital across the firm, positioning us to capitalize attractive investment opportunities as they present themselves. Lastly, we continue to benefit from the scale of our integrated platform and growing contribution of more predictable earnings.

With that, I'll turn the call over to Martin.

Martin Kelly
Chief Financial Officer

Thanks, Marc. And good morning, everyone. As you can see from our results this morning as well as from Marc's commentary, we had a very strong third quarter. I don't plan to go through all of our results, but I do want to take a few minutes to discuss several items that you may have some questions about.

Starting with our Management business, for the third quarter of 2013, Apollo earned $63 million of ENI versus $89 million in the second quarter. This decline in Management business ENI was due to lower management and advisory and transaction fees and increased expenses. The modest sequential decline in our management fees was driven by $3 million of non-recurring fees that we received within our credit segment during the second quarter. It's important to note that Fund VIII commenced its investment period on September 1st, which added approximately $10 billion to fee-generating AUM. The fee basis mechanics behind the commencement of Fund VIII's investment period and Fund VII's simultaneous step-down resulted in a roughly break-even financial impact to our third quarter management fees.

Looking forward, although we cannot provide specific guidance, we expect to see a catch-up in management fees within our private equity segment upon subsequent closings of Fund VIII, as well as incremental recurring management fees based on any additional commitments to Fund VIII subsequent to September 30. However, this increased recurring revenue from Fund VIII will be partially offset, as we continue to exit investments in Funds VI and VII and reduce the amount of invested capital in these funds.

Advisory and Transaction fees were $36 million lower in the third quarter compared to the second quarter, driven by 2 primary factors: the second quarter included $23 million of onetime termination payments in connection with the IPOs of several of our private equity funds' portfolio companies; in addition, the third quarter reflects lighter sequential transaction-based fees amid a less active deployment backdrop that Marc discussed.

Turning to Expenses, third quarter compensation costs were sequentially higher primarily due to adjustments to year-end accruals, severance and timing of new hires in support of our continued growth and expansion. These higher compensation expenses were partially offset by lower non-compensation expenses during the third quarter. In addition, as we have noted in prior quarters, there was approximately $17 million of incentive compensation accrued in the Incentive Business for the third quarter of 2013 compared to $20 million in the second quarter. In terms of fund-raising-related expenses, it's important to note that while we have raised a considerable amount of capital for Fund VIII through the end of the third quarter, we have not yet recognized any significant fund formation costs to date.

One final note on the Management business, other income in the third quarter includes a $13 million noncash, nonrecurring reduction to the firm's tax receivable agreement. The impact of this adjustment is approximately offset within the third quarter's income tax provision.

Turning now to our existing Private Equity funds. Portfolio company investments appreciated by 18% during the third quarter and 50% over the past 12 months. The favorable investment performance in the third quarter was primarily driven by appreciation of Sprouts Farmers Markets and Athlon Energy, which both completed IPOs during the quarter. Regarding portfolio company performance, the aggregate revenues for the Fund VI and VII portfolio of companies were down less than 1% for the rolling 12-month period ending September 30, 2013, compared to the 12-month period ending June 30, 2013, while EBITDA was roughly flat over the same period. Looking at the year-over-year comparison, aggregate revenues were down by an estimated 2.5% for the 12-month period ending September 30, 2013, compared to the 12-month period ending September 30, 2012, while EBITDA was up by an estimated 2.5% over the same year-over-year comparison.

As we have done over the last few quarters, we'd like to provide you with a few helpful data points for certain of our larger and newer public holdings at the end of the third quarter. The funds we manage currently hold: 9.2 million shares of EVERTEC in Fund VII; 11.1 million shares of Berry Plastics in Fund V; and 18.7 million shares in Fund VI; 50.9 million shares of Norwegian Cruise Lines in Fund VI; and 22 million shares of Countrywide in Fund VI; additionally, Fund VI continues to hold 54 million shares of Sprouts; while Fund VII holds 53.8 million shares of Athlon following their third quarter IPOs.

Before I conclude my prepared remarks, I'd like to provide some additional information on Athene and its anticipated financial impact on applied global management in conjunction with Athene's recent acquisition of Aviva USA. First, Athene's acquisition of Aviva USA adds approximately $44 billion of incremental AUM to Apollo's credit segment. On a pro forma basis, Apollo's AUM at September 30 was approximately $157 billion, including more than $100 billion in our credit segment. As Marc noted, Athene Asset Management is providing Athene with a wide range of asset management and other services for all of its assets, for which it earns a gross fee of 40 basis points per annum. It is important to emphasize this is a gross fee and that Athene Asset Management assumes all costs associated with providing these services, which are folded into our integrated credit platform.

Second, pro forma for the acquisition, the percentage of Athene-related assets invested in Apollo managed assets was approximately 10% as of September 30, 2013. We expect this percentage to increase gradually over time provided that we continue to perform successfully in providing asset management services to Athene.

Third, in 2012, Apollo and Athene agreed to terminate a long-term monitoring contract at the end of 2014. As a result, Apollo has been receiving and will continue to receive payment of monitoring fees on a quarterly basis through the end of 2014. This payment, which may be settled in cash or in equity shares of Athene at Athene's option, is currently expected to be settled in Athene equity upon Athene's completion of an IPO. For the third quarter, this payment was $22 million. The calculation of this quarterly repayment is dependent on the level of Athene's statutory capital and surplus, which roughly doubled in size following the Aviva acquisition. Importantly, while this fee is additive to ENI, it is currently being accrued as a noncash item.

Lastly, as you may have noticed in our press release, our carry receivable balance related to AAA and other increased meaningfully from the second quarter. The sequential change was driven by legacy AAA co-investments on Athene's balance sheet that appreciated materially during the quarter, including Sprouts for which Apollo receives carry.
With that, we'll turn the call back to the operator and open up the line for any of your questions.

Question and Answer

Operator

[Operator Instructions] Your first question will come from Mike Carrier with Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Maybe first question, just on Athene, maybe 2 things. One is when you think about the ratio that you just mentioned in terms of 10% being managed by Apollo, just want to get some color on what types of products can that go into. And then is there some limit over time? Or could it go over time to over 50% to 100%?

Marc Adam Spilker
Former Senior Advisor

Thanks, Mike. It's hard to know where it'll ultimately end up. I think when you look across our credit platform, the platform has really developed over the last 5 years. And so I would expect that those are the products that are attractive to -- would be attractive to any insurance balance sheet. And so it would -- wouldn't be unreasonable to see the growth in the direction that it has been in, which is in the highly rated, yield-based investments that will be accretive to the balance sheet of Athene. And so I do think that it will probably look a lot like the existing footprint of our credit business.

Gary M. Stein
Head of Corporate Communications

I just want to mention that there are some additional information about Athene that's posted on the AP Alternative Assets website. There's an investor presentation, among other things, with some additional helpful information about Athene.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

And then just on that business, we think, longer term, when you look at the opportunity that you had with Aviva, should we think about, from an M&A standpoint, more potential activity in this segment? And maybe just meeting dynamics of the industry, like why was this so attractive and then are same ingredients still there in this environment?

Marc Adam Spilker
Former Senior Advisor

Well, the landscape of industry is evolving, and so the way -- at least, the way I think about it is that -- and we've articulated this before, that it's a spread business. Where do you take on your liabilities versus where can you invest your assets? And then when you asked the question about growth, the real question is can you increase your liabilities. And there's a number of ways to do that, which we have shown. One is through organic growth, which I think will be a focus of Athene going forward. Secondly, it is buying blocks of business, and third is acquiring whole companies. And all of that is predicated upon the ability to redeploy assets at a spread that gives an interesting ROE. And so I don't think there's a mandate for growth. But as long as the ROEs are attractive, then I believe there'll be opportunities to continue to grow that business.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

And then just last one, in the credit segment, it seemed like -- I don't know if you want to call it the carry margin, but basically, the carry less the comp, just seemed like that margin was a little compressed. I didn't know if there were some catch-up or if there was something that was more unusual this quarter.

Martin Kelly
Chief Financial Officer

Yes, sure, Mike. It's associated with an earn out contract with this turnstile business. And so from time to time, there's a reassessment of the future expected cash flows coming out of those acquired funds and businesses, and the obligation that's on AGM's balance sheet is revalued and that increase in value during the third quarter by about $35 million. And that was attributed to both an expected longer sort of tenor or duration of the funds, as well as an expected increase in capital raise assumptions going on to the future.

Operator

Your next question is from Howard Chen with Crédit Suisse.

Howard Chen
Crédit Suisse AG, Research Division

Marc, I appreciate, understand that you do not get fixated on quarterly deployment levels, and you all have really patient capital. But just now that 2013 is mostly complete, it looks like PE deployment will be roughly half of that $3.5 billion to $4 billion range you all have kind of consistently been in for the better part of last decade. So just curious if you could just again expand on that and talk about how you think about the broader environment for deployment? You also noted the pipeline's getting loud here.

Marc Adam Spilker
Former Senior Advisor

Yes. Thanks, Howard. I mean, this is more like a long-term way we think about the business that we do go in cycles, realization cycles, deployment cycles. And we set up our platform to be nimble and take advantage of the opportunities that we see, whether it's to deploy or whether it's to realize. And clearly -- and we've said this consistently as an organization over the past year to 18 months that we believe we're in a good realization environment. It's clearly a less good deployment environment. But having said that, things are going to change in the world. There's many reasons for the low deployment environment. But if you think over the long span of time, we continue to have high confidence that having "dry powder" will accrue to the advantage of our funds when those opportunities present themselves. And so while people -- the organization is out there clearly trying to generate ideas, and as we've said, we've seen a handful of things that look more interesting, and you never know which ones will get across the line, that we do remain confident. And you just can go back over the 23-year history, and the deployment cycle has always been very lumpy quarter-to-quarter, year-to-year. And so we'll see where we get to. But we continue to be confident that we have developed a world-class sourcing and idea-generating network, and that will come to fruition over time.

Howard Chen
Crédit Suisse AG, Research Division

And my second question, as you build more scale across the sleeves of alternative credit, not only for your business and hand in hand and hopefully, advising more Athene assets over time, how do you think about the pace of investment spending for Apollo? What's done? Can you just level set for us what's done and what's left to do in terms of building out some of the sleeves you all want to do?

Marc Adam Spilker
Former Senior Advisor

Yes, I think it's a really good question. Again, it goes to the structural issue of what's going on in the capital markets, more broadly where the increased pressure there are on many financial intermediaries on the balance sheet is making some of the more specialty, esoteric and liquid parts of the credit market more appealing to us. And so we've built a lot of our big silos in performing credit in Europe, in mezz, in distress. And we've also started, as you know, over the last year or 2, build out more specialty silos, and I think we're going to continue to do that. It's hard to say the bulk of the investment is done, but I feel like we've created a position now of scale. The core business will continue to scale, and we're in credit products where there is significant room to grow. And again, I've said this in the past, whether it's real estate mezz or things like residential and consumer lending where those markets are very large and we're small players in those markets where I think that losing credible scale to grow. So in summary, we've built some silos that have opportunities to continue to grow in scale and then the many other specialty areas that, I think, that we can add on over the course of time.

Howard Chen
Crédit Suisse AG, Research Division

And then I just had a last quick numbers question. In the last Athene 10-K, the value of the capital and surplus fee relationship, I think, was estimated around $370 million. Now that you've closed the Aviva deal and the operating backdrop has evolved, do you have an updated figure for that estimate?

Marc Adam Spilker
Former Senior Advisor

I don't have an updated estimate. But I would say if you went back to the way Martin talked about the $22 million, which is based upon the CNS fee that -- on capital surplus, which has roughly doubled. And I think we've said in the past that we expect that to occur over 8 quarters. I think that you could do some rough math that may get you within the ballpark.

Operator

[Operator Instructions] Your next question will come from Matt Kelly with Morgan Stanley.

Matthew Kelley
Morgan Stanley, Research Division

Coming back to Athene, kind of the broader business environment. I think this was sort of asked, but I just wanted to ask in a different way, how you see the evolution of the number of blocks of business that are potentially out there for sale and what sort of -- can you give us a little bit more color on your conversations with the regulators as you -- as Athene has become a bigger player in the space now?

Marc Adam Spilker
Former Senior Advisor

It's really hard to know how many blocks are for sale and where we'll ultimately get to. And this -- the reinsurance industry has clearly gone through a big phase of restructuring. There are a lot more eyes focused on it. And so while I'll go back what I said earlier, I would be reasonably optimistic that there will be things to do going forward. It's just each one of those things is complex, it's hard to know where we'll ultimately get to.

Matthew Kelley
Morgan Stanley, Research Division

Okay. And then just a quick follow-up for me, this one maybe more for Martin. But on the private equity transaction fees, I know last quarter, you had some -- a little bit over $20 million in nonrecurring from IPOs. This quarter seemed kind of abnormally low relative to where you've been. Just curious, any sort of guidance on a run rate there outside of IPOs? Or what should we be thinking about going into year end?

Martin Kelly
Chief Financial Officer

I guess, the way I'd think about it is the transaction and advisory fees for the quarter of around $29 million include the $22 million within the credit segment for the capital and surplus fee. And the balance is just standard recurring advisory fees for the most part and then a very small amount of deal-based transaction fees, so -- and if you look at Q2, it had transaction fees it, both for terminations, termination fees related to IPOs and new deals. So we're probably at a low point given the transaction volume, and it's -- the future trajectory of that is entirely dependent on deal flow.

Marc Adam Spilker
Former Senior Advisor

I'd also add and we've said this before in prior calls, that if you look at the Fund VIII agreement, 1 of the terms we talked about was the 100% fee offset on transaction fees. And so I would just note that, that's something to keep in mind going forward.

Operator

Your next question is from Kenneth Worthington with JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Apollo had taken the position earlier in the year of selling everything that wasn't nailed down, sort of made its way around the financial press. Your comments this quarter seem to highlight realizations more opportunistically. So is either the Apollo investment team or management team more sanguine about the outlook for the market? And should we read into this any impact on the pace of realizations?

Marc Adam Spilker
Former Senior Advisor

Thanks for the question, Ken. I would say, no, that each investment is evaluated on its own merits. The now famous comments from last year really were highlighting our view that with good equity markets, the capital markets window is open, relatively attractive financing markets, even though rates are higher, that it's a good environment to realize. And you can obviously see that we continue to believe that, but that's really ultimately then has to be supported by each investment on its own.

Gary M. Stein
Head of Corporate Communications

Yes, just to follow up on that, at quarter end, 73% of the gross fair value of our investments was essentially publicly traded and was reliant upon either broker quote or a public mark -- in the equity markets. And breaking that down, 62% of that -- 62% of our private equity fair value is based on public quotes, 86% of credit and 50% of real estate. So clearly, large part of the portfolio is already in the public domain in terms of marks and access to the public markets.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

And then, I guess, about AAA, so the NAV is going to increase substantially with Aviva. Can you walk us through in terms of the management fee and the carry that results from the step-up? I assume the management fee is fairly straightforward. The carry seems to have some controversy around it. Any chance that you can walk us through the implications on the carry that APO gets on the step-up?

Marc Adam Spilker
Former Senior Advisor

I'm not sure that it's related to the step-up that you're talking about. And the carry -- and I think I understand what you're talking about. The carry is related to the value of the underlying assets, not related to the NAV of AAA. And so as Martin had talked about in his script that the increase in carry receivables is due to the fact that the underlying assets themselves increased in value during the quarter.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. So, does that imply that the meaningful step-up in NAV isn't going to translate into significant carry? It's just the underlying performance really drives the carry, not the AUM? Maybe this is worth taking offline, but I thought I'd get it out there.

Marc Adam Spilker
Former Senior Advisor

Yes, just again to reiterate, if -- if it's the carry that I think you're talking about, which is in our disclosure as AAA and Other, I think, is the category, those are related to specific assets that moved up in value and not related to the NAV of AAA.

Gary M. Stein
Head of Corporate Communications

And then also I'd direct you to the Page 20 of the press release, the Carry Receivable table. We did add some additional details around the AAA and other receivables. And the footnote exquisitely described the portion that's related to Athene, which I think is what you're asking. At September 30, there were -- $82 million was related to Athene.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Yes, yes, I was figuring since the deal closed after September 30, that's why I brought it up.

Operator

Your next question is from Bill Katz with Citigroup.

William R Katz
Citigroup Inc, Research Division

You mentioned you had another nice win in the strategic mandate with the sovereign wealth fund. I was just wondering if you could size the pipeline behind that, what you might see out there. And then my underlying question is, I think you still look at this with a little bit of skepticism or cautiousness I guess. Any updated thoughts on tapping to retail sort of a 1940 Act type product set?

Marc Adam Spilker
Former Senior Advisor

Yes. Thanks, Bill. Sizing the pipeline is hard. It's more part of the structural shift that we've talked about, which is -- and we -- it's generally referred to as increasing allocation to alternatives, but part of that is really increasing allocations to unconstrained credit. And I think I described earlier on the call the robust multi-asset credit platform that we currently have. And there is fairly good dialogue, ongoing dialogue about how to create good risk rewards in the credit space for many of our LPEs. And that dialogue is interesting, and we've continued to highlight that over time as what we think as a real growth opportunity for the firm and real investment opportunities for our LPEs. I would say on your second question, retail gets a lot of focus, and we're very focused on at the same dynamic that's happening in the institutional market, which is search for yield and search for things that will be accretive to the discount on reliability that individuals have the same issue that institutions have. And that's why all of our -- that's why the asset management industry and in particular, alternative asset managers are focused on creating product that is suitable for retail, which we are focused on. And over time, it has grown. There's a lot of difference in the language that people use. The way that we think about it is really twofold: one, is that we have created close-end funds, and we've talked about them on prior calls. In some of the larger funds that we have launched, whether it be EPF I or II and our prior private equity funds, there are high-net-worth individuals and others that invest in the funds. And so we've been in retail. And I do think that it's an area that will continue to grow and we will continue to focus on. The other area that we focus on, we also talk about often on this call is permanent capital vehicles, which is slightly different, but in the end of the day, there is a lot of retail money that accesses more sophisticated strategies through mortgage REITs and commercial REITs and things like that. And that's been a growing area for us as well. And when you add all of that up, it has become an interesting part of our overall AUM.

Operator

Your next question is from Robert Lee with KBW.

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

Just curious, maybe, in looking at Fund VIII. Clearly, capital raising has been going on very well, and could you -- 2 questions at that. Number one, I'm just kind of curious of the $12 billion committed to date. Now does that include insiders' and employees' commitments? Or, is that all third party? And then, what's kind of your ultimate goal for this fund? I mean, would you kind of feel like you need to cap it out?

Marc Adam Spilker
Former Senior Advisor

We haven't said -- we haven't given any construction of the $12 billion, and just very hard to know where we're ultimately going to get to. I did highlight in my script that things were going well. We've talked about in the past that LPEs are going to reward managers who have had good performance, and we think we're in that category. But at this point, it's very hard to say where we will ultimately get to.

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

Okay. And maybe, Martin, just to -- I don't -- if you could -- I don't know if you could -- just looking quarter-to-date, obviously, you've had the large Lyondell follow-on and some other things possibly out there. Any kind of incremental update on kind of where we stand quarter-to-date and what that all translates into? Kind of what's in-house so far in terms of a distribution from realizations or whatnot and where we're sitting right now?

Martin Kelly
Chief Financial Officer

Yes, sure. To date, based on completed closed transactions from private equity, we are at $0.19 per share, and that predominately includes the Lyondell secondary.

Operator

Your next question will come from Chris Harris with Wells Fargo Securities.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Really just one question. The bank acquisition you guys had recently done in Spain, you talked about it in your prepared remarks. It sounds really interesting. Wondering if you could just comment a little bit more on whether there's a lot more deals like this to be had in Europe given some of the restructuring that needs to happen there and maybe whether there are a lot of other players like yourself trying to capitalize in similar situations?

Marc Adam Spilker
Former Senior Advisor

Yes. Thanks, Chris. I mean, it's a great question because we said many times that the landscape in Europe is changing. It's hard to know where we are in that, but it's a very, very long-term opportunity that's probably at the beginning phases. And so it would stand to reason that there are more opportunities, but I'll give you 2 sides of the coin. On the one side, these transactions are really complex and very hard to do, and so therefore, it's hard to predict that lots will get done with these. On the other side of the coin, there's just -- there is a lot to do in Europe. And we think that we are very well positioned because we have built a franchise that is growing. We have an experienced team on the ground with a track record through what the funds have done and other acquisitions have built a servicing platform that we think is becoming more unique in nature and a competitive advantage. So if it goes in the direction that we believe, which is ongoing restructuring, that we think that Apollo has positioned itself extremely well to take advantage of these kinds of opportunities.

Operator

Your next question is from Marc Irizarry with Goldman Sachs.

Marc S. Irizarry

Goldman Sachs Group Inc., Research Division

Just in terms of the change in your distribution policy, I was hoping to get a little more color around the thinking of the big step function higher and the fixed component of it. I guess, specifically, when you think about the jump that you have and the size of the fixed distribution, what sort of, I guess, fund-raising expectations are sort of embedded in that? And I guess, you can ask why not more if you just think about sort of the expected run rate of your -- the management fee business as you bring on Athene in Fund VIII that, I guess, you could say maybe it's a little lower or could be a little higher relative to the fee related or these management fees coming in? Maybe if you can just give us some color on that.

Marc Adam Spilker
Former Senior Advisor

Yes, look, it's a good question, and suffice it to say that we spend a lot of time trying to figure out what we believe was the most appropriate place to end up. And many of those factors that you cited were part of the consideration. And so I'm not go into the specifics other than to say that we obviously took this very seriously. We think this is an important step forward for our overall franchise and made this decision very carefully, and we think we ended up in a very good place.

Gary M. Stein
Head of Corporate Communications

Yes, just to emphasize the distribution policy, the $0.15 regular distribution, you can expect every quarter. But as Marc said, our distribution policy is such that we do pay out all cash available but for the amounts management holds back in order to run the business each quarter.

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

Okay, great. And then just in private equity, Martin, I think you mentioned maybe there's some fund formation costs that are going to -- that could come into the P&L that aren't there yet. I don't know if you guys can address this specifically about the fund raising for Fund VIII. I don't know if you could talk about what the target size might be and maybe how those costs are sort of affected by how big that fund might ultimately prove to be.

Martin Kelly
Chief Financial Officer

Marc, it's really hard to do that because we can't talk about the size of the fund and the associated costs, depends on couple of variables: which placement agents we use; there are different fee structures in place; there's a range around capital that might come in from each of those agents; and there's a question around timing of the closings. And so it's hard for us to predict, and therefore, it's hard to provide guidance around then.

Operator

Your next question is from Brennan Hawken with UBS.

Brennan Hawken
UBS Investment Bank, Research Division

Question on the Athene market. Did you guys see any change in the blocks are for sale in the market back when rates started back up in 2Q? Is there enough business that's sort of out for bid that you could see whether or not there's been any kind of shift now that we've approached or people start to believe that we're within reach of a taper at some point?

Marc Adam Spilker
Former Senior Advisor

Honestly, I'm not sure I know the best answer to that question. I don't believe we have seen a big change. And partly, it's because I think a lot of these transactions take a really long time to do, and they're related to corporate strategy as opposed to necessarily specific market focus at the time. So there may be slightly less of a relationship there than you would think, but ultimately, they are related. So I'm not sure that I've seen a shift in it, but there may be.

Brennan Hawken
UBS Investment Bank, Research Division

Okay. And then a follow-up on Marc's question or question on the distribution change there. It seemed -- I think you guys indicated that there's sort of less income coming from some of the holdings and what have you, and so I think some may read into that thinking that there is -- maybe we're closer to the end of the harvest mode that you guys have been in or maybe we're beginning to wind down in the harvest mode. Is that the right conclusion to come to when we think about the change in the distribution policy?

Marc Adam Spilker
Former Senior Advisor

Well, let's just give you a way -- one way to maybe think -- a framework for thinking about it, and then you can come to your own conclusion. And Martin's gone through this a couple of times in the past. And I would just say on the first part of the question is that when you look at the construction of the portfolio, especially given the investments that were made at the bottom of the cycle, and so you could see things like exiting our positions in Lyondell and Charter is going to affect what we used to refer to as the second bucket, which is interest and dividends from the portfolio. And that's position related. The second part which is really important, if you just -- But Gary, I'm not sure which page it is. But if you just refer to the fair value on the ground of the PE portfolio on Page 19, you could look at what we have said each quarter in terms of the total size of realizations in PE by quarter, look at the fair value, and then you can make an assumption as to where do you think that fair value will appreciate or what rate and whether or not we'll put new capital into the ground and what the average rate of realization will be over forward quarters, and then you can come up with a framework. And all of the math would suggest that there are still numbers of years left. Again, that could change. We could realize slower. We could realize faster. But if you come up with a framework, it would suggest that there are still numbers of years. And the other thing that I'll point to, which we're quite proud of is, if you look at the dynamic of -- if you look at the AUM dynamic, and in general, there are 3 big moving parts. One is additional capital raised. The second is change in fair value, and the third is distribution. And in an environment where over the past 12 months, we have distributed $22 billion and the AUM has ended up in around the same place and the fair value has ended up in around the same place, that we continue to, I believe, show that we are, for the parts of the franchise, that runoff, we're continuing to rebuild. And that really shows the dynamic nature of our organization.

Operator

Your next question is from Patrick Davitt with Autonomous.

M. Patrick Davitt
Autonomous Research LLP

I just have one quick one on Athene, more on the organic growth side. Is there kind of a regular pace of organic growth we can think about there? Because I'd imagine there's a fairly consistent pace of new policy origination and many going into old policy.

Marc Adam Spilker
Former Senior Advisor

I don't have an answer to that at all. As Gary did refer you to the materials that are put out, I'm not even sure if they say a number. But I would say that, as you can imagine, in the ongoing operational consolidation of the businesses that we have put together, there is a organic distribution platform. And I think part of what is being said by Athene, which seems quite rational, which is there's not a mandate for growth but to grow when it is sensible to grow based upon where you take on liabilities weather versus where you could deploy assets. And I believe that Athene will be quite rational in terms of where it prices its liabilities as a function of where the assets are. And so as long as that overall spread leading into a sensible ROE is out there, then there's opportunities to continue to grow organically.

Gary M. Stein
Head of Corporate Communications

And I would just add, with the completion now of the Aviva transaction, Athene is one of the leaders in the U.S. fixed annuity business and clearly, with now -- together with Aviva, really poised for material growth in retail. And again, as Marc said, we'd refer you the Athene information on the AP Alternative Assets website, which does provide a little bit of detail about the growth strategy for Athene.

Operator

And your final question is from Bulent Ozcan with RBC.

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

I have a question on Athene. I just want to get a better understanding of the return on equity and which figure to use as a comparable. It sounded like the new targets will be around 15% to 20% for ROE. Should I be comparing that to the 40% number that was disclosed or more versus the 27% that was reported in 2012?

Gary M. Stein
Head of Corporate Communications

No, I think target has not changed. I think the ROE for Athene has always been in the mid- to high teens. So I don't think anything has changed there. Again, I'd refer you to the Athene information on the AAA website. And also, there will be a replay of that call available on the AAA website later today. There was a discussion around ROE with respect to Athene, again, mid- to high teens and to the extent there was outsized ROE in the third quarter, was due to some partnership investments in particular, so -- again, but I think the mid- to high-teens target has always been the case and continues to be a solid return range.

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

Okay. And in terms of the growth, it sounds almost like the growth from here on will be organic. Is it a right read into the discussion this morning? While there are opportunities out there, I came away with thinking that you're right now more focused on making sure that there's enough capital -- better capital there to grow the business organically. Would you have any comments, additional comments -- additional color to that?

Marc Adam Spilker
Former Senior Advisor

No, I think we have said -- I think we have given you a roadmap on that.

Gary M. Stein
Head of Corporate Communications

But just to drive on the point that Athene is -- remains very well capitalized and is focused clearly on integrating the Aviva business into Athene and focused on building out the growth of the business going forward.

Operator

That was our final question, ladies and gentlemen. I will now turn the conference back over to Mr. Gary Stein for closing remarks.

Gary M. Stein
Head of Corporate Communications

All right. Thanks very much. Thanks, everyone, for joining today. As we said earlier, if you have any follow-up questions, please feel free to reach out to Noah Gunn or myself.

Operator

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