S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

FQ3 2014 Earnings Call Transcripts

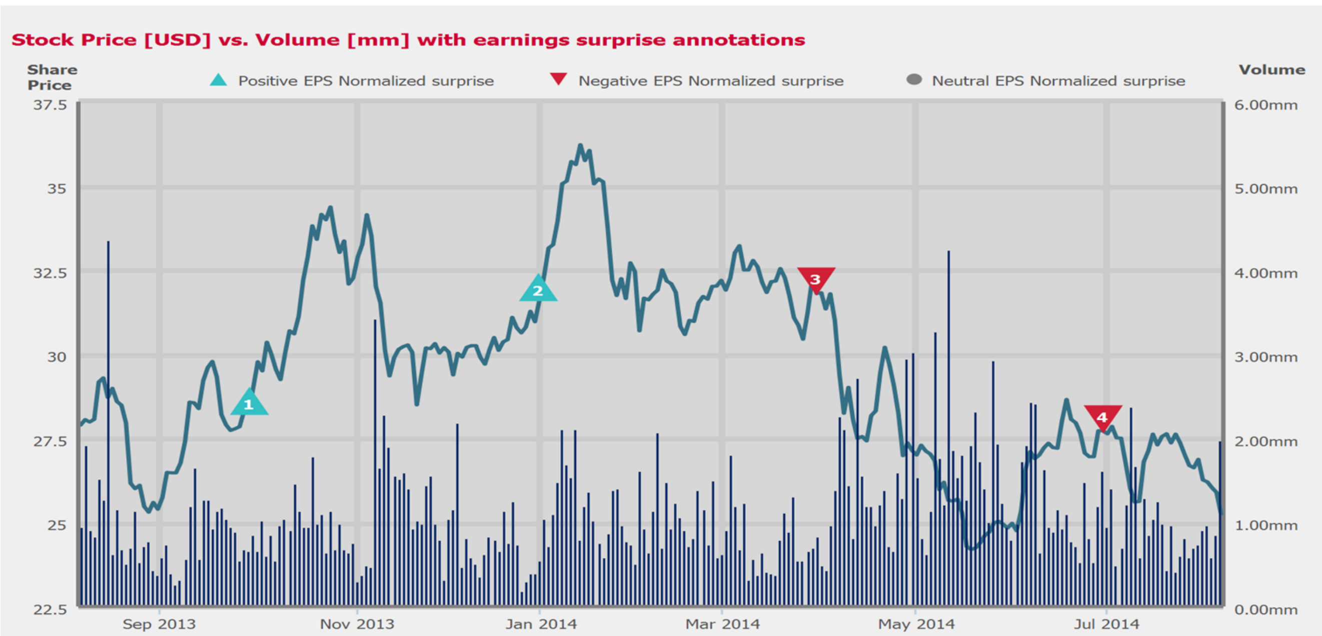
Thursday, October 30, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.38	0.12	(68.42 %)	0.58	2.03	2.37
Revenue (mm)	370.83	221.14	(40.37 %)	519.98	2077.80	2205.10

Currency: USD

Consensus as of Oct-30-2014 10:50 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	0.94	1.34	42.55 %
FQ4 2013	0.81	1.06	30.86 %
FQ1 2014	0.58	0.55	(5.17 %)
FQ2 2014	0.66	0.52	(21.21 %)

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2014 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. Please go ahead.

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, Apollo reported non-GAAP after-tax economic net income of $0.12 per share and distributable earnings to common and equivalent holders of $0.77 per share. Also, we declared a cash distribution of $0.73 per share for the third quarter of 2014, representing a 95% payout ratio.

As a reminder, 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 will also be discussing certain non-GAAP measures on this call such as economic net income and distributable earnings, which are reconciled to our non-GAAP -- to our GAAP net income attributable to Class A shareholders. These reconciliations are included in our third quarter earnings press release, which is available in the Investor Relations section of our website. Please also refer to our most recent 10-K for additional information on non-GAAP measures and risk factors relating to our business. As a reminder, this conference call is copyrighted property 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 Josh Harris, Co-Founder and Senior Managing Director of Apollo Global Management.

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

Thanks, Gary. This morning, I'd like to touch on a few topics, including our current views of the market environment given the recent volatility. But first, I'd like to briefly summarize some of the highlights from our third quarter results with a few key takeaways.

We remain active in monetizing our portfolio and delivering significant returns to our investors. The funds we manage generated total distributions of $4.6 billion during the third quarter, which resulted in nearly $0.5 billion of gross realized carry. The private equity transactions behind the majority of that activity were executed at a weighted average multiple of invested capital of nearly 4x, reinforcing our best-in-class track record in private equity.

In addition, our Management Business ENI of $131 million during the quarter was more than double the amount of a year ago. Strong realized gains in PE and solid performance in our Management Business were the primary drivers of our $0.73 per share cash distribution in the quarter.

Our fundraising efforts, our ability to identify and originate new business opportunities and our solid investment performance continue to drive our business forward. To put some numbers around this point, our AUM, or assets under management, are up 45% year-on-year to $164 billion, while fee-paying AUM is up 63% to $130 billion. Contributing to our AUM growth was nearly $3 billion of capital that was raised during the quarter.

Finally, we remain active in deploying capital in a variety of differentiated investment opportunities. Although we continue to remain net sellers in the current environment, we continue to find what we believe are well-priced investments. Across our platform, we deployed more than $2 billion in the third quarter, and the pipeline of committed but unfunded deals in private equity stood at $1.7 billion at September 30. In addition, we announced several transactions post quarter-end, including Tranquilidade, Express Energy Services and Carige insurance, bringing the total pipeline of equity committed to $2.4 billion today.

As you know, over the past 6 weeks, the markets have experienced a period of increased volatility given oil price depreciation, uncertainty around Fed tightening, Ebola fears and fears in Europe around the pace of economic growth. From mid-September through mid-October, looking through the intraday activity -- trading activity in the S&P 500, the index declined 10% from peak to trough before recouping some of its losses very recently. And the yield on the 10-year Treasury dropped 80 basis points during that time and fell briefly below 2%, while the VIX peaked at 26 before retrenching below 15 earlier this week.

Spreads remain near all-time high tight, and credit markets have also experienced volatility recently. As measured by certain leading indices, the high-yield market was down nearly 200 basis points during the third quarter, and leveraged loans were down approximately 50 basis points. None of this comes as a surprise to us as we've been saying for quite some time now that the credit markets are priced to perfection.

So what is our take on all this? Broadly speaking, we expect volatility to continue, but this doesn't concern us. In fact, we like volatility since we believe it creates attractive investment opportunities, and our current portfolio is well positioned for the long term.

First, on equity markets and their impact on our private equity business. As it relates to capital deployment as value for our investors, we would like nothing more than for the rich valuations in the marketplace to drop from their current high level. And we believe that pullback in equities ultimately helps to drive pricing downward to levels where we feel more comfortable putting our client's capital to work. In private equity, we have more than $22 billion of capital available to deploy, and we're actively engaged in identifying pockets of the market where declining valuations are creating opportunities. Of course, when the equity markets pull back, our portfolio may experience unrealized mark-to-market losses. However, focusing on the marks over a 3-month span is a short-term view versus the ultimate value created for investors over the long term. The reality is that the portfolio is performing well overall. The current portfolio of public equity holdings in the private equity funds we manage consisting of 14 companies have outperformed the S&P 500 by 46% on a weighted-average basis since their respective IPOs. So our conviction in the performance and value of those assets in our portfolio remains undeterred.

As it relates to exit activity, it's no secret that we've been very actively utilizing the healthy equity capital markets over the past 24 to 36 months to monetize investments. The funds we manage have generated $29 billion private equity realizations since the beginning of 2012. As you know, this activity has generated robust realized gains and cash distributions for our investors and shareholders, and the strong pace of activity has continued into the fourth quarter with several announced transactions that have not yet closed. If the equity markets faced pressure, we would anticipate a lighter concentration of share sales as a percentage of overall exit activity. However, if this were to happen, we believe that other channels would continue to be available to drive exit activity.

Corporations and financial sponsors are sitting on record levels of cash and dry powder, and we are observing that dialogues are becoming increasingly more active. This trend is evident when we look at the announced sales within our portfolio during the third quarter such as Encana's acquisition of Athlon, Eastman Chemical's acquisition of Taminco or Norwegian Cruise Lines' acquisition of Prestige. In many cases, strategic deals are done at a premium to public equity market valuations. And historically, these types of monetizations represent a little more than half of the exit deals we do. It is mainly because equity markets have been so accommodative in recent years that we've seen a moderation in strategic sales, with less than 20% of our gross realized proceeds coming from strategic or sponsor buyers since the beginning of 2012.

Next, I'd like to discuss interest rates and specifically reiterate some of the comments I made on our last call regarding a rising rate environment and its perceived impact on our credit business. Out of our nearly $108 billion of total credit AUM, our funds manage very little in the way of rate-sensitive assets. In fact, excluding all of Athene's assets, which is an insurance company that is designed for assets to match liabilities, so there is no -- so it is designed so that the -- there is no real duration. The duration of our credit portfolio is just under 1 year. We have an intentionally large exposure to floating-rate assets, so we would welcome a rising interest rate environment and believe it would be beneficial to our investment performance. We believe that any credit market dislocation would likely result in a quicker pace of deployment of our drawdown credit and private equity funds, which tend to generate higher management and incentive fees. We see this as a tremendous opportunity for our business, as we have historically outperformed in these types of scenarios.

The last area I'd like to address is the perceived impact of oil prices on our business. Broadly speaking, the decline in oil prices to current levels is not surprising to us. In the short term, the price of oil is difficult to predict, and it certainly has the ability to detach from long-term fundamentals. Even at these lower prices, we believe energy is a very interesting place to be investing capital, and we're tactically working to take advantage of the market dislocation. Specifically, we continue to see this as an opportune time to buy physical assets in the ground at significant discount to energy prices implied by the financial markets. We are able to create these opportunities by leveraging our extensive resources, including deep industry and technical expertise as well as seasoned management teams located across the continent. At the same time we're assessing new investments, we are actively managing our current portfolio. As of September 30, the net exposure to energy investments in private equity and credit, excluding Athene, was less than $5 billion or approximately 7% of our total invested capital in those segments. Where and when we think it makes sense, we're monetizing pieces of the energy portfolio. This was the case with the recently announced sale of Athlon Energy, which was negotiated before the selloff in oil. For the remaining investments in the funds, we managed the -- that we manage, the companies employ robust hedging strategies. In addition, we believe we used very conservative underwriting assumptions in our investment decisions. So in summary, although it can be volatile, we continue to believe that energy investing is one of the few arbitrage opportunities in an overvalued market.

Before concluding, I'd just like to remind everyone that we've now been public for roughly 3.5 years, and we believe our growth to date has exceeded the high expectations in place at the time of our initial offering. To help provide you with a more transparent view of our business as well as articulate the next leg of growth, we will be holding an Investor Day on December 11, and we really hope that you are able to join us in person or via webcast.

With that, I'd like to turn the call over to Gary for some specific highlights on each of our businesses. Thanks, Gary.

Gary M. Stein
Head of Corporate Communications

Thanks, Josh. Starting with private equity, the funds maintained a strong pace of realization activity in the third quarter, which resulted in aggregate distributions of $2.8 billion of capital to our fund investors. In the process, we earned $370 million of realized carry in private equity, which was the primary driver of our $0.73 per share cash distribution this quarter. Specifically, these realizations were driven by numerous transactions, including secondary and/or block share sales of our funds' remaining interest in Berry Plastics as well as some of our funds' interest in Athlon Energy, Rexnord and Sprouts Farmers Markets. Subsequent to these transactions, the funds we manage held the following: Fund VI held 12.9 million shares of Rexnord and 27 million shares of Sprouts, and Fund VII held 25.2 million shares of Athlon at the end of the quarter before giving effect to the announced pending sale to Encana.

Touching on capital raising, our first natural resources fund is over 70% invested or committed as of September 30, with strong performance to date, and we expect to launch fundraising for a successor fund early next year. Regarding capital deployment within our private equity fund, activity increased in the third quarter largely due to the closing of Jupiter Resources' purchase of assets from Encana.

Turning briefly to our credit business. At the end of the third quarter, we had $108 billion of AUM in credit, which includes $48 billion related to Athene, $25 billion in U.S. performing credit, $15 billion in structured credit, $11 billion in opportunistic credit and $9 billion in European credit strategies. During the third quarter, fundraising activity of $2.4 billion within credit was led by $2 billion of inflows for our third credit opportunity fund. This brings total fund commitments to $3.4 billion, reaching its hard cap and well exceeding its initial target of $1.5 billion. Importantly, the investment period for this fund began in June, and the fund is already approximately 1/3 invested.

Credit fundraising was also bolstered by commitments to several other funds totaling approximately $400 million in aggregate. Notably, $150 million of that total was from an increase in an existing strategic managed account, which speaks to a trend of not only receiving sizable new mandates but upsizing existing accounts. So far in the fourth quarter, we have extended our relationship with another strategic account by an additional $275 million. By providing LPs with holistic unconstrained credit solutions targeted to their needs, we believe we are providing a differentiated service that is not easily found elsewhere in the marketplace.

Importantly, we remain active in deploying capital in a variety of differentiated credit investment opportunities, with nearly $1 billion deployed in our drawdown-type funds during the third quarter.

Lastly, on real estate, we remain active in real estate debt, and so far this year, the funds we manage deployed approximately $1.3 billion in first-lien mortgage loans, mezzanine loans and CMBS. On the equity side, we remain opportunistic across property types and geographies. Our U.S. private equity real estate fund-based capital is now fully invested or committed, so we look forward to launching the fundraising process for our next fund in the coming months.

With that, I'd like to turn the call over to Martin for some comments on our financial results.

Martin Kelly
Chief Financial Officer

Thanks, Gary, and good morning, everyone, again. Starting with our Management Business for the third quarter, Apollo's Management Business earned $131 million of ENI, exhibiting strong year-over-year growth.

Looking quarter-over-quarter, rising Management Business revenues were driven by higher advisory and transaction fees, which increased due to deployment-related fees. In terms of Management Business expenses, the modest quarter-over-quarter increase was driven by $6.5 million of placement fees related to the final closing of COF III and a true-up of interest expense to reflect the full quarter impact of our notes offering in May.

The modest loss in other income within the Management Business was driven by adverse foreign exchange movements of approximately $5 million, which resulted primarily from the depreciation in the euro and British pound. We believe our Management Business margins are healthy, and as we achieve an increasing amount of scale, we expect our margins to benefit over time.

That said, we will continue to strategically invest in the business by adding talent and capabilities to facilitate additional growth. Given the ongoing hiring activity across the firm, which included a 6% growth in headcount during the third quarter, we expect compensation expense to continue to increase in the near term, including in Q4, given the timing of bonus accruals for new hires condensed over a shorter time frame.

Turning to our Incentive Business, in private equity, our traditional private equity funds depreciated by approximately 2% during the third quarter, which was driven by approximately 2% depreciation in publicly traded equity portfolio holdings, [indiscernible] in publicly traded debt holdings and approximately 1% appreciation in private holdings.

In credit, excluding Athene's non-sub-advised assets, our funds continued to perform well, with most pockets of our business generating modest positive gross returns during the quarter in the face of a more challenging backdrop that Josh described. That said, we had a couple of funds that either fell a bit below their hurdle or did not appreciate enough to maintain the accrual of their hurdle, which contributed to the sequential moderation in carry income.

Of the roughly $14 billion in carry-eligible credit AUM not yet earning carry, approximately $6 billion is related to funds that are below their respective preferred return hurdle, and the rest represents dry powder. On an aggregate basis, the $6 billion of carry-eligible credit funds in the ground and not currently generating carry are less than 2% away from reaching their hurdle as of September 30.

Lastly, on the Incentive Business, as we have noted in prior quarters, there was a discretionary incentive pool compensation accrual in the quarter of $16 million within the profit share expense. As a reminder, this incentive pool is separate from fund-level profit sharing, which can be positive or negative, depending on marks, and therefore can have a variable impact on the profit share ratio during a particular quarter.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter. First, the percentage of Athene-related assets invested in Apollo-managed funds was approximately 20% or $12 billion as of September 30, 2014, up from 17% as of June 30. As was stated previously, we expect the sub-advised assets under management to increase gradually over time as long as we continue to perform well in providing asset management services to Athene and also identify opportunities to deploy their investment portfolio.

Next, Apollo has been receiving and will receive for 1 more quarter monitoring fees, also known as the capital and surplus or C&S fee. For the third quarter, this fee was $58 million. The noncash C&S fee was being settled on a quarterly basis in arrears in the form of additional shares of Athene based on its per-share valuation at the end of each quarter and is appearing as incremental value on our balance sheet. As of the end of the third quarter, Apollo had a 6.9% economic ownership interest in Athene. This includes earned C&S and related fees through the second quarter of 2014 as well as Apollo's general partner stake as the manager of AP Alternative Assets or AAA. In dollar terms, Apollo's economic interest in Athene is valued at $323 million on our balance sheet as of September 30. Note that this amount excludes the $121 million gross carry receivable related to AAA as of September 30 and $58 million of C&S and related fees earned in the third quarter that we also expect to be paid in shares of Athene at a future date.

With regard to our cash distribution, the $0.73 we declared today includes our regular distribution of $0.15 plus $0.58 of other cash earnings. The additional amount above our regular distribution was primarily driven by carried interest earned from the transactions that Gary mentioned earlier. Based upon announced transactions from our private equity funds that were not yet closed as of the end of the quarter, including the sales of the remainder of our fund's holdings of Athlon and Taminco and some cash carry we expect from the sale of Prestige to Norwegian, we anticipate net realized carry of approximately $0.37 per share over the fourth quarter and/or first quarter of next year, pending the timing of the successful close of the transactions.

One last point I'd like to mention pertains to the escrowing of distributions due to the general partner of our fund, which is a standard industry provision that is triggered when a fund reaches a particular threshold. This typically occurs as the fund gets closer to the end of its life. As of the beginning of the fourth quarter, Fund VI went into what we call escrow, which occurs when the fair value of the remaining investments in the fund falls below 115% of the remaining cost of those investments. In the case of Fund VI, this percentage was at 108% at September 30, and as long as this percentage remains below 115%, any Fund VI distributions due to Apollo as the general partner will not be paid out and instead will be held in escrow.

It is important to note that although it is difficult to forecast how long Fund VI will remain in escrow, as of the end of the third quarter, if all of the remaining investments in the fund were to be liquidated at their current marks, any distributions that would have been held in escrow would have been paid out to Apollo as the general partner. At September 30, our total net carry receivable across the firm was $1.81 per share, and of that total, the Fund VI component amounted to approximately $0.16 per share.
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] And your first question comes from Bill Katz of Citi.

Steve Fullerton

It's Steve Fullerton filling in for Bill. I think first question, just the media seemingly has picked up a number of articles talking about possible regulatory scrutiny picking up on the industry. Can you just speak about that broadly and specifically, on the IRR issue?

Martin Kelly
Chief Financial Officer

Sure, Steve. It's Martin. So we're aware of the article. We're not aware of any investigation relating to the IRR matter. We do include GP capital in our net IRR calculations, and the reason we do that is because we calculate IRRs at the fund level and not at the investor level. We are very transparent in our disclosures to our investors. And if you look at the impact of including versus not the GP capital in the calculation, it's small. And if you take Fund VII, in our case, the net IRR life-to-date would be approximately 20 basis points different. So we believe our disclosures are transparent and consistent with what we've done previously and we believe is good practice.

Gary M. Stein
Head of Corporate Communications

Yes, I would just add that there's no industry standard, and I think the focus of the article is really around whether funds are transparent about how they calculate their net IRRs as opposed to whether it is appropriate or not in terms of how calculations are done. And again, there is no industry standard in that regard.

Steve Fullerton

Okay. And I appreciate the commentary on dry powder and private equity and credit. Can you just talk about maybe, geographically, where you see dislocations given recent volatility to invest?

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

Yes, I'd say that -- it's Josh. I'd say that clearly, in Europe, we're seeing dislocation relative to the softening of the economy over there. And then certainly, in the -- the big downtick in oil prices has created some opportunity in our credit business. Those would be the -- and then also, the strengthening of the dollar has hurt basic materials and natural resources away from oil. And so I'd say those are -- so those are the sort of 3 areas that just stand out. But anytime you got volatility, you're going to get more opportunity across the board, but those would be the areas that I would highlight.

Operator

Your next question comes from Patrick Davitt of Autonomous.

M. Patrick Davitt
Autonomous Research LLP

My only question is around the disclosure. I'm curious why you decided to take out the cost in fair value disclosure.

Gary M. Stein
Head of Corporate Communications

I think generally speaking, we thought there was enough disclosure in the release to help people understand, obviously, where the funds are, and we've got a lot of disclosure in the investment record table. And I think we generally felt that there was more -- it was causing more confusion in terms of the cost versus fair value. If you -- you would have noticed that the -- with respect to credit, for example, the cost in fair value only represented a small portion of the total credit business, so we felt that it wasn't necessarily giving you a full view of the credit business. And therefore, we felt that it's best to just refer to investment record tables and the other disclosures in the release.

Martin Kelly
Chief Financial Officer

And I'd also just put that in the context of other disclosures that we've added in the last 3 or 4 quarters, which we think are more useful presentations of our results.

Operator

Your next question comes from Michael Carrier of Bank of America.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

First question, just on the growth outlook, and I guess it depends on what you hope for because you get a pullback, you can deploy more capital, markets remain strong if the distributions continue. Assuming sort of steady-state environment, when you think over the next 1 to 2 years, given that your portfolio is -- the returns are there and so you could continue to distribute, how should we be thinking about kind of the net growth of the business, so fundraising less distributions? Obviously, year-over-year, the growth rate has been great. But more recently, just given that the distributions have been strong [indiscernible], I just want to get your sense, when you're managing the business, how do you think about that over the next couple of years.

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

Yes, so the way I would think about it is we organically are growing our credit business really just through all the opportunities that are being created by just the pullback of the banking sector globally. And we would expect to be able to grow our credit business organically, double digit. And what I've said in the past is that in the background, we have what we call our R&D lab, and we're always working on new things that might stairstep the firm. The latest one of those was Athene, which brought on $60 billion of assets over a few years. The one before that was some of the leveraged credit trades we did during the financial crisis. And so it's really hard to predict when the next opportunity will come, but that obviously, would stairstep the growth of the firm. And then you have tuck-in acquisitions, and again, we've done 2 of those and continue to work on some others. And then private equity, obviously, as we've discussed, the large flagship fund has recently been raised. You have some small incremental funds that are being raised, a couple of which we mentioned on this call relative to natural resources, the next fund in natural resources and the next fund in real estate. But that's likely to be relatively incremental vis-à-vis the size of the private equity business. So that's the way that I would describe it overall.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, that's helpful. And then just on 2 of the areas that you mentioned, both Europe and then in the energy sector, just when you're making those investments, I guess, just given some of the uncertainty, particularly on the European economy and just the price of energy, when you're making those investments, how do you gauge like the downside or protect the downside? Because obviously, on the European side, if we're stagnant for a few years, there's something that you guys can do on the portfolio company side, but just trying to understand how you go through that thought process. And the same thing with energy. If the dynamics are changing versus the last 30 years because of production in the U.S., just how do you kind of factor that in, in terms of the investment outlook?

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

Yes. I'll start with energy, and then I'll get to Europe. I'd say that in energy, we always look at the long-term fundamentals, not the short-term market fluctuations of the price. And when you look at energy -- so the move down in oil is not surprising to us. When you look at the fundamentals of energy and you really look through the sort of trading trends, what you see is that the supply curve where oil is economic, gets very, very flat at around $80. And so therefore, if the price of oil were to drop for an extended period of time below $80, you would see, ultimately, the withdrawal of supply in the marketplace. And therefore, while the price of oil can go down below $80 for some period of time, of course -- and even some moderate period of time, if you're looking over a 5-year period or a longer-term period to how we gauge our investments, it's likely to be that price or above. In terms of the upside in oil, certainly, geopolitical events and other things can knock it up. So if you go into it and you have -- so we look at things and we say, okay, where we buy -- and most of what we're doing in oil and gas on the private equity side, we're buying oil and gas at a pretty significant discount to that price, even today. So even though that price is today at $80 and it was at $90 kind of a few months ago, for us, we were always buying below $80 anyway because we didn't really focus on the current -- that current price. We're always focusing on the $80 to begin with. So we feel like what's driving the -- our ability to continue to put money to work in oil and gas and energy in North America is our expertise and our ability to buy assets through the management teams we have deployed all over North America that we think -- so we have a bit of an edge in terms of how we do that. In Europe, we always -- even though Europe appeared to be growing and so forth, we always looked at Europe as being flat. And if the investment work -- a lot of -- I had a lot of -- early in the recovery in Europe, people were coming in and saying, well, look, if Europe just gets back to where it was before the last recession, look how much money we can make on these investments. And we never really bought that. We always felt that Europe would be relatively flat. So if you can make money in a flat environment in Europe, we'll look at the investment. Clearly, there's probably upside to that. And Europe itself is not uniform. I mean, you can't really -- as you get into investing, you might be investing in U.K. That's a better growth environment than, say, some areas in Southern Europe. You might be investing in Germany. That's a -- although there's been some recent flattening in Germany, that's a better growth environment than other places. So Europe, I'd just make the point it's not really uniform. But those would be the 2 areas, and that's how we look at it. So generally, the reason that our returns are best-in-class is that we do try to find these investments where there's an arbitrage on the way in and that the purchase prices allow you to make relatively conservative assumptions and the returns will still work. And I think that is very much the case in energy and in Europe, where people are fleeing a little bit because they're seeing some flattening that we had already anticipated.

Operator

Your next question comes from Luke Montgomery of Sanford Bernstein.

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

So I wondered if you guys had any thoughts about CalPERS's decision to exit hedge funds and what that means to the appetite for alternative strategies more broadly. I think I appreciate that you guys are in an enviable position of being able to raise more capital than you can deploy, but just generally, do you see any dialogue amongst the large asset owners that the private equity industry's at risk of becoming overcapitalized and that the returns will be insufficient to compensate the risk? So what's the general sentiment around the asset class with LPs at large?

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

Is that general sentiment around hedge funds or around private equity?

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

No, it was sort of more a read-through of the decision to exit hedge funds and what that might mean for private equity.

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

I think CalPERS, it's hard for me to comment on CalPERS's specific motivations, particularly because they're a large -- they may be a large investor there. Relative to other institutions' interest in hedge funds, I continue to think it's a robust asset class. So I don't think the -- I think certainly, hedge funds recently -- certain actively managed hedge funds have had tougher returns this year, but I don't really see a big movement out of hedge funds relative to our investors.

Gary M. Stein
Head of Corporate Communications

Yes, and I would just add, I think based on the statements that they made, and again, I don't want to necessarily speak for them, but I think there was a view that the hedge fund asset class for them was -- had high fees and returns that did not meet expectations, and that was specific to the hedge fund investments. I think clearly, as we look broadly across alternatives and look at private equity and credit, the returns, certainly Apollo, have been very strong and have delivered what has been offered up to investors in terms of investment returns.

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

I mean, the hedge funds also -- I mean, it's a broad category, so it kind of comes out -- I mean, long/short equity hedge funds have been particularly hard hit in this last year because many of them bet against the federal reserve policy and felt interest rates were going to go up and lost. And so therefore, that particular category, I haven't looked at the math, but I think -- I wouldn't be shocked if there was some decline in that category. With the hedge funds, when you broadly define that credit hit, including credit mandates and credit hedge funds and so forth, again, those -- that's been growing a lot. And so you have to also be -- my sense from your comment is that you're talking about long/short equity type hedge funds, and we don't really do that. It has no effect on us. If you want to broadly define some of our credit business as hedge fund, that part of our business is growing about as fast as anything in our business. And also, you also have to be careful a little bit with the nomenclature of how you're describing it.

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

Okay, fair enough. And then I share the frustration with the focus on mark-to-market over a quarter, but I'm going to take a stab at this anyways. I wondered if you could just talk about what your general approach is to calculating the performance on the privately held positions, what the weights on the inputs are. I'm just trying to develop a sense of the potential volatility of that piece versus the public piece and if there's any systematic way to think about it.

Martin Kelly
Chief Financial Officer

Sure. So every company is different. We have a pretty robust valuation process that assesses each company individually and comps it to inputs that are relevant to that sector. So there's not a single set of inputs we use. It really depends on the industry vertical, the maturity of the company and how close it might be to an exit.

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

But there is a systematic -- I mean, just to hitch your point, there's a really systematic process of valuing private investments that is -- that we try to make very robust and very consistent. I don't know if you want to comment on that, Martin.

Martin Kelly
Chief Financial Officer

I mean, we have a set of valuation committees that cascade up or down, from asset class up into a broad committee, and we really decompose all of our assets down into groups who focus on attributes that are relevant for that asset class. And so we use all available evidence that we can, available to us, both inside and outside the fund, to help guide that valuation process.

Operator

Your next question comes from Marc Irizarry of Goldman Sachs.

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

Related to that, Josh, can you maybe comment, and I might have missed this, but on the private equity, private company performance, just the operating performance, maybe how much of what you see in the environment is sort of a little bit more market than sort of what's going on fundamentally with the portfolio?

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

Yes. So Marc, let me start with that. So we look at the performance in our portfolio on a rolling 12-month basis, on both a revenue and an EBITDA basis, and we look at sort of year-over-year and then quarter-over-quarter. And the underlying performance is strong in all 4, the revenue and EBITDA terms in both those time periods. So quarter-over-quarter, Q3 to Q2 on a 12-month rolling basis, revenue and EBITDA both are between 2% and 3%. And then on a year-over-year basis, similar 12 months rolling, they're up sort of between 5% and 6%. Revenue is growing. EBITDA is growing a bit more with cost management. So the underlying fundamentals across the book are really quite healthy.

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

Okay. And then just getting back to the volatility in the market and your ability to deploy capital. Particularly, I'm interested in some of the credit strategies and just thinking about the locked-in, the longer-dated capital versus the liquid capital and your ability to sort of capitalize on volatility and credit. Obviously, things can snap back and have been snapping back pretty quickly. Josh, any view on just how integral just having more flexible or nimble capital and credit is? And is that an advantage for you to put capital out as things move pretty quickly?

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

Yes, so that's a huge advantage, and we have a lot of liquidity. And again, when -- during the 3- or 4-week period between the end of September and mid-October, we did see a pullback in certain sectors, particularly -- which I mentioned, and we put a bunch of money to work. And so from our point of view, it had to pull back more, we would have put more money to work. And what we're seeing is that because the dealers don't have as much capital up in terms of trading books, we're seeing the prices of securities gap a bit more when there's selling pressure. So things gap down, in certain cases, 10, 15, 20 points, bought a bunch, and then they gap back up. So there is less liquidity in the marketplace either way, but I think it's fine. I think that there's people out there with a lot of capital like us that are sitting there waiting for these opportunities. And I think that, that's how it worked. So I think that's a huge advantage. We do look over a much longer time period and try to take advantage of these -- of the volatility when it comes.

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

Great. And then just, I guess Gary mentioned the credit SMA. I'm just curious if there's any visibility at all into sort of pipeline of what those sort of mandates could look like going forward.

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

Yes, there's a lot -- I mean, right now, there's a lot of conversation and a lot of interest because what's happening is that the large institutions -- again, I'm looking at their fixed income portfolios and saying, wow, I'm making 3% or 4%, and I'm not being paid for the risk and the duration that I'm taking relative to the fixed income markets, which are being priced off of government and treasuries, which are continuing to be overvalued. So people are getting worried about the duration and the interest rate that they're earning on that portfolio, and they're looking for other alternatives. And some of the -- as you know, the fixed income bucket is a lot larger than the alternatives bucket in the pension system. And so when people decide to look at that, you're talking about kind of $0.5 billion chunks, plus or minus, which can move the needle. And many of these institutions decide they don't want to necessarily be encumbering all the funds. And so there is a lot of -- there are a lot of people setting these things up to get ready for what they see as a rising interest rate environment over time. So there's a lot of interest in that area.

Operator

Your next question comes from Bulent Ozcan of RBC.

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

Just a quick question, just to go back on -- to valuations. I'm not sure if you've disclosed that, but could you give us the mark on your nonpublic portfolio companies, what it was in the September quarter?

Martin Kelly
Chief Financial Officer

No, Bulent, we don't disclose at that level of detail.

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

You don't? Okay. And in terms of the EBITDA growth, you've given us, I guess, on a rolling 12-month basis, but could you give us the EBITDA growth on a basis sequentially for your portfolio companies?

Martin Kelly
Chief Financial Officer

I did. So I gave 2 statistics. One was -- it's all LTM, last 12 months, rolling 12 months, because that takes out the seasonality. And so we provided rolling 12 months Q3 versus Q2 and rolling 12 months Q3 this year versus Q3 last year. And so those numbers that I mentioned were both those time frames.

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

Okay, great. So you don't look at it basis sequentially on a quarter-to-quarter basis?

Martin Kelly
Chief Financial Officer

We don't because some of the companies have seasonal attributes to their sales profile, so it's better -- best looked at on a LTM-basis.

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

LTM basis. That make sense. And then a quick question, and I'm not sure if you can comment on it or not, but on the recent acquisition of the insurance companies, the European insurance companies in Italy, should we think about that as investments by PE funds into a portfolio company? Or are there certain synergies that can be realized in terms of distribution just having Athene and these 2 companies combined, the operations?

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

Yes, that's invested in our private equity fund. So it was just invested in our private equity fund and it's again driven by the need for many, many banks in Europe to deleverage and free up capital. And so we were able to take advantage of that in terms of buying that at a very good price. And so there's no risk. We're not looking at synergies across the portfolio on that one.

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

Yes. And given I guess the recent stress test results out of Europe and specifically out of Italy, are you seeing an increase in, basically, in the pipeline? Or are conversations happening more frequently on [indiscernible] transactions or potential transactions?

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

Yes, we are. I mean, obviously, if you look at 2 of the deals we announced -- if you look at the deals we're announcing right there in energy or financial services in Europe, and so there's generally an overpriced environment. That's not by accident. That's because there's a lot of pressure in Europe for the -- the stress test being the latest thing, but it's been going on even before that, for people to -- for the banks to get smaller. And then in the energy sector, there's a lot of opportunity here in North America relative to the shale phenomenon, the significant reduction in the cost of creating reserves here relative to global pricing. And so these types of sort of macro pictures that create excess selling or excess capital need drive -- is driving pricing down in these types of sectors to points where we can actually make good money. And that's why we're focusing on these sectors in an otherwise overvalued PE environment. I mean, the PE environment is not cheap. It's actually very, very high. So I look at all this as a manager of our PE business, and I think we're doing a pretty good job of getting money out in good investments in a difficult environment by focusing on these types of opportunities.

Operator

At this time, there are no further questions in the queue. I would like to turn the call back over to Gary Stein for any closing remarks.

Gary M. Stein
Head of Corporate Communications

Thanks, operator. Thanks, everyone, for joining us today. Obviously, if you have any other questions, please feel free to follow up with either Noah Gunn or myself. And again, hopefully, you'll all be able to join us for our Investor Day on December 11.

Operator
Thank you. This does conclude today's conference call. You may now disconnect.