S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

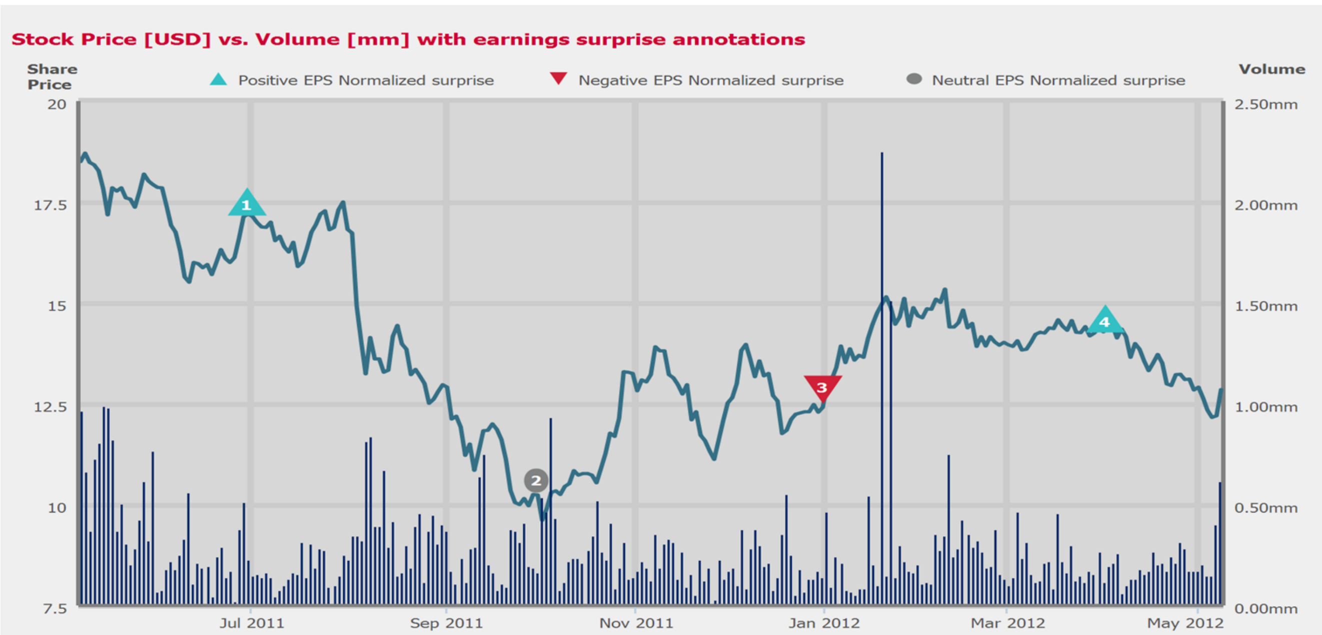
FQ2 2012 Earnings Call Transcripts

Thursday, August 02, 2012 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.11)	0.05	NM	0.56	2.31	2.92
Revenue (mm)	174.38	211.63	21.36	490.39	2046.29	2614.97

Currency: USD
Consensus as of Aug-02-2012 1:54 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.37	1.15	210.81 %
FQ3 2011	(0.67)	(1.46)	NM
FQ4 2011	1.42	0.80	(43.66 %)
FQ1 2012	0.79	1.10	39.24 %

Call Participants

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Gary M. Stein
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Former Senior Advisor

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Neil Stratton

Presentation

Operator

Good morning, and welcome to Apollo Global Management's Second Quarter 2012 Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Gene Donnelly, Chief Financial Officer. Earlier this morning, we reported non-GAAP after-tax economic net income of $0.05 per share for the second quarter of 2012 compared to $0.31 for the second quarter ended June 30, 2011. For U.S. GAAP purposes, we reported a net loss attributable to Apollo Global Management of $41 million for the second quarter of 2012 compared to a $51 million loss during the second quarter of 2011.

Total assets under management, or AUM, was $105 billion as of the end of June, and fee-generating AUM was $77 billion. We declared a cash distribution of $0.24 per share for the second quarter of 2012, which comprises a $0.07 regular distribution and $0.17 attributable to realizations from portfolio company and credit investment dispositions, incremental net transaction fees earned during the period and interest and dividend income earned by our Private Equity and Capital Markets funds.

A few weeks ago, we announced the transition of our CFO position. Martin Kelly will be joining Apollo as our new CFO next month, while Gene Donnelly will remain with us as a senior adviser through the end of 2012. We're thankful for Gene's leadership and contributions over the last 2 years, as Apollo became a publicly traded company and further grew and diversified its global investment platform, and we wish Gene the best of luck in his future endeavors.

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 do not 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 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 second quarter earnings press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. 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 Patrick Parmentier 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 welcome, everyone, to our 2012 second quarter earnings call. This morning, I'll touch on a few topics, including our current views on the market environment, updates on our business segments and the current status of our fund-raising efforts. Before jumping into these discussion points, I'd like to first touch on the new employment contracts that our managing partners entered into last month.

During our last call, we mentioned the expiration of the employment contracts with our managing partners, Leon, Josh and Marc, which were signed in connection with Apollo's private offering transaction back in 2007. On July 19, Leon, Josh and Marc signed new employment agreements, the terms and conditions of which were substantially similar to their original contracts. Under the new 3-year agreements, Apollo's managing partners will continue to receive total annual compensation of $100,000, and the majority of their Apollo income will be derived from the same declared distributions that our Class A shareholders receive. This arrangement reinforces Leon, Josh and Marc's focus and engagement in the business, and collectively, with their 54% ownership in Apollo, continues the strong alignment of interest in building long-term shareholder value and generating meaningful cash distributions for all of Apollo's shareholders.

Looking back on the second quarter, we continue to execute our business strategy to enhance our position as a leading global alternative investment manager despite a more challenging economic environment relative to prior 2 quarters. As you know, global equity markets were down during the second quarter, and they have been particularly volatile since May. The market's volatile performance was largely attributable to economic reports indicating slower global growth and the ongoing European debt overhang. The focus on day-to-day headlines addressing possible policy responses by central banks and governments also contributed to this volatility. We think that it's likely that we'll be operating in a more volatile economic environment, at least through the end of this year, and the U.S. economy will begin to receive heightened political attention with the upcoming November elections and the ensuing so-called fiscal cliff.

Furthermore, we believe the secular and structural changes taking place in Europe are at an early stage, which may further contribute to market volatility beyond 2012. Against this backdrop, we continue to see investment opportunities and deploy capital at a healthy pace. Although realization activity slowed somewhat from the previous 2 quarters, the market's appetite for additional IPOs have been subdued so far this year. Dialogues with strategic buyers have continued, and our funds were able to still monetize certain of their credit and equity holdings.

Our fund-raising activities also continued at a strong pace. We raised $2.3 billion of new capital during the second quarter as institutional investors continue to turn to alternative investment managers for more attractive, risk-adjusted returns in a low-rate environment.

Turning to our Private Equity business. The overall valuations of our funds and the underlying investments were up slightly during the second quarter after appreciating on a combined basis by approximately 1%, comparing favorably to the performance of the S&P, which was down 3% over the same period.

Although optimism appears to be waning over global economic growth, our private equity portfolio companies still perform well through the period ending in the second quarter. Aggregate revenues from our Fund VI and Fund VII portfolio companies were up an estimated 1% during the second quarter of 2012 compared to the first quarter of 2012, while EBITDA increased an estimated 17% on the same sequential basis.

Looking at the trailing 12 months, we saw modest top line and bottom line growth with aggregate private equity portfolio revenues up by an estimated 2% and EBITDA up by an estimated 3% for the trailing 12 months ended June 2012 compared to the same period as of June 2011.

Consumer-oriented companies had stronger financial results relative to the industrial portion of our private equity portfolio, and some of the portfolio companies began curtailing their financial outlooks for the second half of 2012, which was consistent with current economic reports that are indicating slow global growth.

Turning to realization activity. Our private equity funds continue to monetize investments as selling opportunities present themselves in today's volatile market environment.

Within Fund V, Hughes Telematics recently completed its sale to a strategic buyer, and AMC Entertainment is also expected to complete its sale to a strategic buyer in August. In addition to strategic sales, we've also used dividend recaps and other forms of capital structure optimizations that result in realizations while the IPO market remains less active. Seven of the portfolio companies of the funds we manage now have registration statements on file in preparation for possible IPOs, depending upon market conditions. As you can see, our private equity portfolio continues to mature, and we are building a queue of potential, future monetizations as windows of opportunity present themselves.

Realization activity from our private equity segment has had a positive impact on our quarterly distributions. Since Apollo went public in March of 2011, we've averaged just under $0.27 per share in quarterly distributions. Looking back, this amount included our regular quarterly distribution of $0.07 and an estimated $0.08 on average from the realized carry associated with the recurring interest and dividend income earned by our funds. The remaining $0.12 on average primarily related to onetime realizations in our private equity funds, showing our ability to generate meaningful cash distributions for our shareholders even when global markets are volatile and trading sideways.

We also continue to find differentiated investment opportunities that allow us to deploy capital at varied points of an economic cycle. We put an additional $1.7 billion of capital at work during the second quarter, which is roughly double our quarterly average investment pace. This included $1 billion of equity from Fund VII and our new natural resources fund towards the $7 billion El Paso Energy transaction. Fund VII also invested $300 million of equity in connection with the purchase of Great Wolf Resorts, and the balance of the capital we deployed during the quarter was primarily used to build upon existing positions in certain distressed situations.

Now turning to credit. Our Capital Markets business has become our largest business segment based upon assets under management. We closed the acquisition of Stone Tower Capital in April, which we have largely integrated with our credit platform over the last 3 months, and we are already seeing the benefits from this strategic acquisition in a variety of ways.

First, we're currently working on securing a mandate from a large insurance company that originally initiated dialogue with Stone Tower and now is seeking to invest across Apollo's broader credit platform. Secondly, the integration of Stone Tower has had a meaningful impact on our Management Business, with management fee revenues from our Capital Markets segment increasing by more than 40% sequentially in the second quarter compared to the first quarter of 2012.

In terms of investing across the Capital Markets segment, we're maintaining our focus on Europe as an area full of long-term investment opportunities, where we're continuing to expand our investment abilities. Our second European nonperforming loan, EPF II, began to deploy capital alongside EPF I. In addition to nonperforming loan portfolios, we also continue to add managed accounts that target other European credit opportunities. We believe there will be a steady flow of investment opportunities in Europe for years to come given the structural and secular changes that will likely take place over a long period of time. Our well-established presence in Europe is also allowing us to build trust and credibility with larger banks that we can partner with for future investment opportunities.

We also continued to grow our diversified senior loan business. For example, we raised a second CLO this year, which was sized at approximately $500 million. The successful completion of this transaction further solidifies our leadership position in the CLO market and consistent with our recent track record of raising 2 to 3 new CLOs each year. Since 2010, we have issued 5 broadly syndicated CLOs, which, including the Stone Tower acquisition, positions us as one of the largest CLO managers with more than $11 billion of CLO-related AUM. We believe that our expertise in CLO products is a great illustration of how we are able to add to our diverse investment platform to fill certain voids of capital formation that have arisen in a shifting financial services industry and also meet the expanding needs of our investors.

Looking now at real estate. We had approximately $8 billion of assets under management at the end of June and remain active around the world through a variety of real estate investment vehicles. Our debt-oriented real estate funds and investment vehicles continue to target real estate-related loans and securities in the U.S., including opportunities in mezzanine loans and both commercial and residential mortgage-backed securities. We're also deploying -- actively deploying capital from our strategic investment accounts into debt-oriented real estate investments.

In April, we held the final closing for our AGRE U.S. Real Estate Fund, bringing total capital commitments to $713 million. As of today, the fund has committed approximately 30% of its capital for investment in a variety of projects.

Throughout the second quarter, we invested $407 million of capital in commercial real estate debt across all of our debt accounts, including Apollo Commercial Real Estate Finance or ARI, the publicly traded commercial mortgage REIT. ARI completed a preferred stock offering, netting proceeds of $83 million. In addition, we launched a new levered CMBS mandate for one of our managed accounts representing approximately $150 million of equity. Finally, our publicly traded residential mortgage REIT, AMTG, raised $250 million of new capital this past April, bringing the life-to-date equity raise to approximately $457 million.

Turning to fund-raising. We raised approximately $2.3 billion of new capital across all of our business segments during the second quarter. This includes additional $1.6 billion of new commitments for our second European nonperforming loan, EPF II, which now stands at $2.1 billion of total commitments as of the end of June. We also added a $200 million managed account with a sovereign wealth fund, which will focus on global credit opportunities. And the final closing of AGRE U.S. Real Estate Fund also contributed to the total capital raised during the quarter.

Our dialogues continue with large institutional investors on how we can partner together to provide a customized suite of product solutions to meet their investment needs. However, as I mentioned last quarter, we don't expect to see the same pace of capital inflows for strategic accounts compared to the last few quarters, and we are very focused on successfully investing the capital we have recently raised for our existing strategic accounts.

We continue to believe that the secular changes taking place in the investment industry play to our strengths as a diversified alternative investment manager and will benefit our fund-raising efforts. The organic growth that we've seen at Apollo since becoming a public company demonstrates the secular changes that are taking place in our industry. Institutional investors are continuing to increase their portfolio allocations to alternative investments in a low interest rate environment, and they are consolidating their relationships with larger scale asset managers like Apollo, who have strong investment track records.

In summary, we believe the broader market will likely continue to be volatile and cause our financial results to fluctuate quarter-to-quarter based on the unrealized values of our fund investments. During the relatively short period since Apollo has gone public, however, we've been demonstrating the ability to expand our investment platform while also realizing gains that can be returned to our shareholders on a regular basis. Although the timing and sizing of such gains can be more difficult to predict during periods of volatility, this quarter provides another snapshot of what we're doing across the business to accomplish goals that we believe will collectively build long-term shareholder value while also generating meaningful cash distributions for Apollo shareholders.

With that, I'll turn things over to Gene.

Eugene Donnelly
Senior Adviser

Good morning, everybody. I'd like to briefly cover the following items before we move to your questions: the quarterly distribution and related outlook for the rest of the year, performance of our Management Business and Incentive Business, AUM, the financial impact of the Stone Tower acquisition and key amounts from our balance sheet.

Starting with our distribution. The $0.24 per share for the second quarter comprises a $0.07 regular distribution, between $0.05 and $0.06 from the recurring portion of our realized carry stemming from interest and dividend income, and the remaining $0.11 to $0.12 is associated with onetime realizations from the sale of equity and debt investments as well as incremental transaction fees.

Given the market volatility that we've experienced recently, it's more difficult for us to predict the timing of future realizations and their resulting impact on future declared amounts. But as we continue to analyze the business in 2012 and the more stable portion of our realized carry, we think it's reasonable to continue to expect a regular quarterly distribution of $0.07 plus another $0.05 to $0.10 from the recurring interest and dividend income generated by our funds. As a reminder, the realized carry associated with recurring interest and dividend income can fluctuate quarter-to-quarter based on timing of interest and dividend payments and the investment composition of our fund portfolios. The contractual terms of our fund partnership agreements and whether a fund is above or below its respective priority return also impacts realized carry. Consistent with our distribution policy, there can be no assurance that any distributions will be declared and paid in future periods.

Looking at our Management Business results, for the second quarter of 2012, we reported $70 million of ENI, which compares favorably to ENI of $35 million and $31 million during the first quarter of 2012 and the second quarter of 2011, respectively. The improvement in profitability comes largely from the net transaction fee from the El Paso Energy transaction combined with our continued efforts to scale our existing platform and ongoing cost management initiatives. These favorable items were offset in part by a $7 million increase in placement fees associated with EPF II and $3 million of onetime acquisition costs that were expensed during the second quarter of 2012 for Stone Tower.

Compensation expense in the Management Business increased from $84 million in the first quarter of 2012 to $89 million in the second quarter and was impacted by higher compensation linked to the El Paso Energy transaction fee as well as an increase in headcount in our Capital Markets segment associated with the Stone Tower acquisition. Offsetting these increases was a $5 million decrease in equity-based comp.

In prior quarters, I shared with everyone the increases in operating leverage that we were generating as we scale Apollo's business. For example, over the last 12 months, our AUM has grown 46% while our infrastructure headcount has increased less than 10% over the same period. There was $6 million of incentive pool compensation recorded in the second quarter of 2012 as profit-sharing expense, compared to $21 million of incentive pool compensation in the first quarter of 2012. This decrease was primarily driven by lower realized carry during the second quarter. As a reminder, amounts determined under our incentive pool arrangement contain both a fixed and discretionary component and will vary quarter-to-quarter, depending upon the overall realized performance of Apollo.

Non-compensation expenses were $69 million during the second quarter, compared to $53 million during the first quarter, which was largely driven by the placement fees for EPF II and onetime Stone Tower acquisition costs.

The other loss in our Management Business was impacted by $3 million of foreign exchange translation losses on foreign-held assets in Europe as the U.S. dollar strengthened relative to the euro and pound during the second quarter of 2012.

I'd like to turn now to our Incentive Business, where we report our more variable financial results, including carried interest income and profit-sharing expense. Our Private Equity segment generated $6 million of total carried interest income during the second quarter, which includes $43 million of realized carry income, offset by $37 million reversal of unrealized carried income. There was also a $103 million increase in Fund VI's general partner obligation to return previously distributed carry, which resulted in the reversal of unrealized carry income. The reversal -- this reversal was partially offset by additional unrealized carry income that was recorded for Fund V and Fund VII based on the underlying net appreciation of their respective fund investments.

After adjusting for purchases and sales, Fund VI depreciated during the second quarter by approximately 1%. As of June 30, an additional $440 million of fund appreciation or approximately 4% of the current fair value of Fund VI investments is needed to fully reverse the $144 million general partner obligation, after which we estimate that the next $923 million of investment appreciation in Fund VI will result in Apollo earning unrealized carry on an 80-20 catch-up basis, whereby each additional dollar of appreciation results in $0.80 of unrealized carry.

Turning to Fund VII. Total carried interest income from our most recent Private Equity fund includes approximately $27 million of realized carry income and $14 million of unrealized carry income. And after adjusting for purchases and sales, Fund VII appreciated by approximately 2% during the quarter.

Our Capital Markets funds generated an additional $2 million of total carried interest income, including $19 million of realized carry income, offset by $17 million reversal of unrealized carry income.

EPF I and the Stone Tower funds each had approximately $18 million of unrealized carry income that was offset by $27 million reversal of unrealized carry income for our distressed and event-driven hedge funds and a $21 million reversal of unrealized carry for our senior credit funds, which was largely driven by our credit opportunity fund, COF I, which holds 37 million shares of Lyondell. And as we shared in prior quarters, certain of Apollo's Private Equity and Capital Markets funds collectively hold 171 million shares of Lyondell, which traded down 8% during the second quarter of 2012 and has since largely recovered during the third quarter.

Also, our investment in HFA, the parent company of Lighthouse Partners, which manages fund of hedge fund portfolios, is accounted for on an as-converted basis based on the underlying stock value of HFA, which is an Australian public company. The value of our HFA investment declined by approximately $13 million in the quarter and is reflected in our Incentive Business results for Capital Markets.

Apollo's total AUM as of June 30 was $105 billion. During the second quarter of 2012, we added approximately $19 billion of AUM from the Stone Tower acquisition and $2.3 billion of new capital raised, as Marc discussed earlier on the call.

Also at June 30, 2012, there was approximately $10.7 billion of AUM related to the Athene Life Reinsurance platform. This amount now includes approximately $3.5 billion of AUM managed directly by Apollo in its Capital Markets and real estate funds, which is up more than $500 million during the second quarter of 2012. For the remaining $7.2 billion, we provide asset allocation and related services, including approximately $1.3 billion of AUM that is expected to run off over the next 12 months.

Turning to the Stone Tower acquisition, we have made significant progress with the integration of the Stone Tower business into our Capital Markets group. Management Business results will be impacted for the second half of the year by approximately $9 million of remaining onetime integration costs. And including the Incentive Business results, we continue to expect that the acquisition is ultimately accretive to Apollo in 2012.

Looking at our balance sheet, as of the end of June, we had $620 million of cash and our gross carried interest receivable was $1.3 billion. After offsetting the corresponding profit sharing payable, we had a net carried interest receivable of $637 million. The amount of Apollo's balance sheet investments in its Private Equity, Capital Markets and real estate funds, as well as our investment in HFA, was approximately $446 million. That excludes consolidated VIEs and other consolidated funds. Our debt holdings remain constant at $738 million as of June -- at the end of June.

Finally, for the quarter, our ENI effective tax rate of 55% was higher than prior periods due to the incremental transaction fee income we discussed. We continue to estimate our ENI effective tax rate on an ongoing basis at 8% to 10%.
With that, we'll open up the line for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Howard Chen with Crédit Suisse.

Howard Chen
Crédit Suisse AG, Research Division

Marc, you made the comment that you're curtailing your growth forecast. So can you just provide a bit more color on what specifically you're all seeing that makes you want to take that stance? And secondly, could you tie that together with how that impacts your view on fund returns and ultimately monetization?

Marc Adam Spilker
Former Senior Advisor

Yes, the comment was made in the context of portfolio companies having the same view that we're hearing from the general market, which is expectation of slow growth, so within that context at the portfolio company level. But as you know, given the volatility, the underlying market, expectations of growth are shifting around quite dramatically. So in the short run, when expectations are lower, we see lower mark-to-markets on portfolio companies, but that's going to vary from quarter-to-quarter. And, if anything, maybe it pushes realizations out a little bit. But I also made the comment that given the nature of our portfolio, we think that there are things that are right for monetization when the -- when the window opens up, subject to better market conditions. So that was the context that I said it in.

Howard Chen
Crédit Suisse AG, Research Division

Okay. Great. And then secondly, the firm's [ph] has been amongst the most active of your peers in Europe, but you've also been of the belief that maybe some of the near-term market opportunity was a bit overhyped by some. So I guess how would you describe the progression of the European landscape today?

Marc Adam Spilker
Former Senior Advisor

We've taken the view that this is the nature of the financial markets are changing in Europe and the issues that they have are going to take a long time to fix, and so we think this is really structural and secular and so we're being very patient. And as we've described before, we think the opportunity comes in 2 forms, one is over time, we believe the bank balance sheets in Europe will decrease and opportunities to buy things, and it's certainly not setting up as a classic distressed opportunity, but we're seeing many opportunities in the NPL space and in the real estate space, and as mentioned, in EPF I and II continuing to take advantage of that. And recognize that the pace may seem slow, but given the size of our funds relative to the overall size of the market, for us there's enough interesting things to do. And we're very focused on that. I also think that, that's an opportunity that requires a lot more than just capital. I think having partnerships with the sellers, being able to have the capital to close the transactions, being able to structure because many of these things are very complicated. And the thing that we have mentioned many times in the past is if you look at the acquisitions that we've made, the sheer number of on-the-ground services we have in Europe, we believe that will continue to create an ongoing competitive advantage. And then the other thing I referenced in our script is the other side of the opportunity, where our capital is still needed, both at the institutional and individual level in Europe. And we continue to find ways to bring -- either buy secondary loans and bonds at prices that are really attractive or participate in creating new primary loans because Europe needs a new capital source, and we believe that partnering with the existing financial institutions is going to be a big opportunity for us on an ongoing basis. And that business is continuing to grow. And I'll just say what I've said every quarter, that this is going to take a really long time, and so I think that you really need to be patient as you build this business.

Howard Chen
Crédit Suisse AG, Research Division

Understood. And then just finally for us, a small numbers-related question. But what's the driver of why the fee yield in Capital Markets increased this quarter?

Marc Adam Spilker
Former Senior Advisor

Which number are you referring to, Howard?

Howard Chen
Crédit Suisse AG, Research Division

I think when we were walking through everything, the fee yield within the Capital Markets business was going up and we thought it might be going down?

Gary M. Stein
Head of Corporate Communications

Yes. We -- so we added, in the quarter, we've got AUM additions from not just Stone Tower but also EPF II coming on board. I kind of think that's probably what you're seeing coming through, helping to drive that yield back up from Q1, which is what I think you're referring to.

Eugene Donnelly
Senior Adviser

Yes. Howard, I think Marc commented on absolute dollar growth and not yield.

Howard Chen
Crédit Suisse AG, Research Division

No, no. I guess, Gene, just to clarify, we thought the inclusion of the CLOs might bring that yield down a bit more.

Marc Adam Spilker
Former Senior Advisor

Yes, there were 2 effects, Howard. One is the inclusion of Stone Tower and the incremental EPF II fund-raise. And given the fees on EPF II, relative to the CLO business, from a average fee basis, it was actually accretive.

Operator

Your next question comes from the line of Marc Irizarry with Goldman Sachs.

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

Marc, I think you mentioned that you're putting money out in distressed situations for Fund VII. I was wondering if you can elaborate on that? It sounded like you said it was sort of in some existing investments. And then maybe you can just put a little color on sort of where you see the incremental opportunities to put capital to work there.

Marc Adam Spilker
Former Senior Advisor

I can't shed any specific light on any one opportunities other than we have built a handful of positions that we think are going to create long-term value and continue to see opportunities just to reinvest in those positions. And we think we're in this kind of environment where that will continue. And in general, in the larger scheme of where we see opportunities, I still think we're on the same themes that we've been talking about for the last 3, 4, 5 quarters, which is Europe, that I just discussed, natural resources. And we'll continue where we see opportunities in stressed and distressed to grow those positions.

Marc S. Irizarry

Goldman Sachs Group Inc., Research Division

Okay. And it seems like you've got a lot of credit oriented type of strategies already in place to capitalize on those themes. I guess if you look at Fund VII, relatively fully invested at this point, almost fully invested, how should we think about Fund VIII on the opportunistic side in terms of maybe the size of that fund and what should we think about from fund-raising there?

Marc Adam Spilker
Former Senior Advisor

Given where we are in Fund VII, I think it's reasonable to expect that later this year we will launch Fund VIII. And so we're getting much closer.

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

Okay. And then just, Marc, on the separate accounts, it sounds like maybe -- or the strategic accounts, it sounds like maybe there's the opportunity set there, how you mentioned it will be slower. Is that just, given the fact that you did have some large wins and sort of the rate of change is slower, you're seeing something different in the way that institutions are looking to put money to work.

Marc Adam Spilker
Former Senior Advisor

I think the dialogue is exactly the same that it's been for the last 6, 8 quarters. But just given the significant number of large wins that we had, we don't think that, that's a sustainable pace. But I also tried to reference in my opening script that dialogues about cross-platform, solution-driven business is still continuing. And so we're focused on that business, and I do think that we will see more, and there may be down the road more large wins, but I think it's more reasonable to expect smaller wins and we hope that we'll see larger ones, but I don't think it's reasonable to expect the same pace going forward. But to make the point, which you bring up, is that it's really important to note that the nature of the dialogue is very similar, that we're seeing many accounts who are looking at the global opportunity in credit and want to try to access the platform across multiple products, and that's a trend that we think is here for awhile.

Operator

Your next question comes from the line of Alex Kramm with UBS.

Alex Kramm
UBS Investment Bank, Research Division

Just coming back to, I guess, the line of questions around Europe earlier, I think you made the prepared remark comment that there's obviously long-term secular changes. So I think most of that was in relation to, obviously, the Credit business. But can you also touch on the Private Equity business a little bit? Do you think some of the changes over there will motivate sellers more, maybe prices come down? And do you see particular industries where you might be a little more active here in the midterm?

Marc Adam Spilker
Former Senior Advisor

No, our current view is that obviously, classic private equity is far more challenged in Europe, for obvious reasons, and where the majority of our focus has been on credit. It doesn't mean -- and we're still doing what you would expect us to do as we have a great team in Europe, and we're continuing to look for opportunities. But it just seems at this point in the cycle that the risk-adjusted returns on the credit side of the business and the areas that I describe is far more attractive. It's entirely likely that the thesis you lay out that over time there will be some very interesting private equity situations that will develop, but that's probably a little bit down the road.

Alex Kramm
UBS Investment Bank, Research Division

Okay. Great. And then just in terms of realizations, I think you talked about the IPO item [ph] a little bit. What about strategic buyers? Any changes you're seeing in terms of, again, some of the portfolio companies that you have or just the dialogue increasing or are strategic buyers a little bit shellshocked at this volatile environment as well?

Marc Adam Spilker
Former Senior Advisor

No, I think it's the same that it's has been, where -- and I know this is a generalization, but strategic buyers continue to look for ways to grow their company, and they continue to have lots of cash on the balance sheet. And so given where many, as I describe, given where many of our company -- many of the companies in our portfolio -- in our funds are, that it means that there's some healthy dialogue and that continues. And so I don't know exactly where that will go, but I would say that the dialogue is where it's been in the last handful of quarters. And we described 2 situations last quarter, and our expectation and hope is that will continue.

Operator

[Operator Instructions] Your next question comes from the line of Ken Worthington with JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

A couple of questions on real estate. I know it's a smaller business for you, but one, the real estate business, kind of industry-wide, has been more active. How do you think the wave of realizations here kind of play -- how does the -- how do you think about this wave of realization relative to your own real estate portfolio? And do you think this is an environment where you're seeing more opportunities for realizations or perhaps deployment as well? And then secondly, some of your competitors have made forays into the real estate housing market, trying to make that work. And I think you've partnered to explore that class in London. Is there also opportunity to explore it in the U.S. and, I don't know, your gauge of the LP interest in that model here?

Marc Adam Spilker
Former Senior Advisor

Yes, I would say on the first, I'm not sure necessarily what you mean about realizations. I would say we're -- we have our legacy CPI funds that we continue to work on and our new real estate fund that we continue to invest. And on the investment side, as I've mentioned in my opening script, we're very focused as well on the debt side of the business. And then when you put that all together, the second part of your question is, we do see significant opportunity in, I guess it's being referred to as the own-to-rent business, interesting cash yields, a segment of the market that needs capital, and we're building expertise in that. So we see opportunities as others do. And I think that, that's going to be an interesting segment to allocate capital to. And we're going to do so in the context of the size of our funds, but that's something that I think will be a growing opportunity.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. In the U.S. and in Europe? In terms of the...

Marc Adam Spilker
Former Senior Advisor

Right now, we're focused on the U.S.

Operator

Your final question comes from the line of William Katz with Citi.

Neil Stratton

This is actually Neil filling in for Bill. You might have addressed this earlier, but can you go over some of the dynamics of the carried interest of this quarter? I notice the gross carry was positive, yet the profit share actually broadened out. If you could just provide a little more color.

Eugene Donnelly
Senior Adviser

Sure. I think, in large part, it's a Fund VI phenomena. And we discussed this on the call for the previous quarter as well. You can have situations where the fund will generate realized carry, yet at the end of the quarter, on a GAAP basis, when you value all the hypothetical -- you value all the fund's investments on a hypothetical basis, you come up with a different result. And so the interplay of Fund VI having a realization event during the quarter and then the valuation at the end of the quarter on a hypothetical liquidation basis for GAAP purposes drives some of the differences.

Operator
Thank you. This concludes today's teleconference. Please disconnect your lines at this time and have a wonderful day.