S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

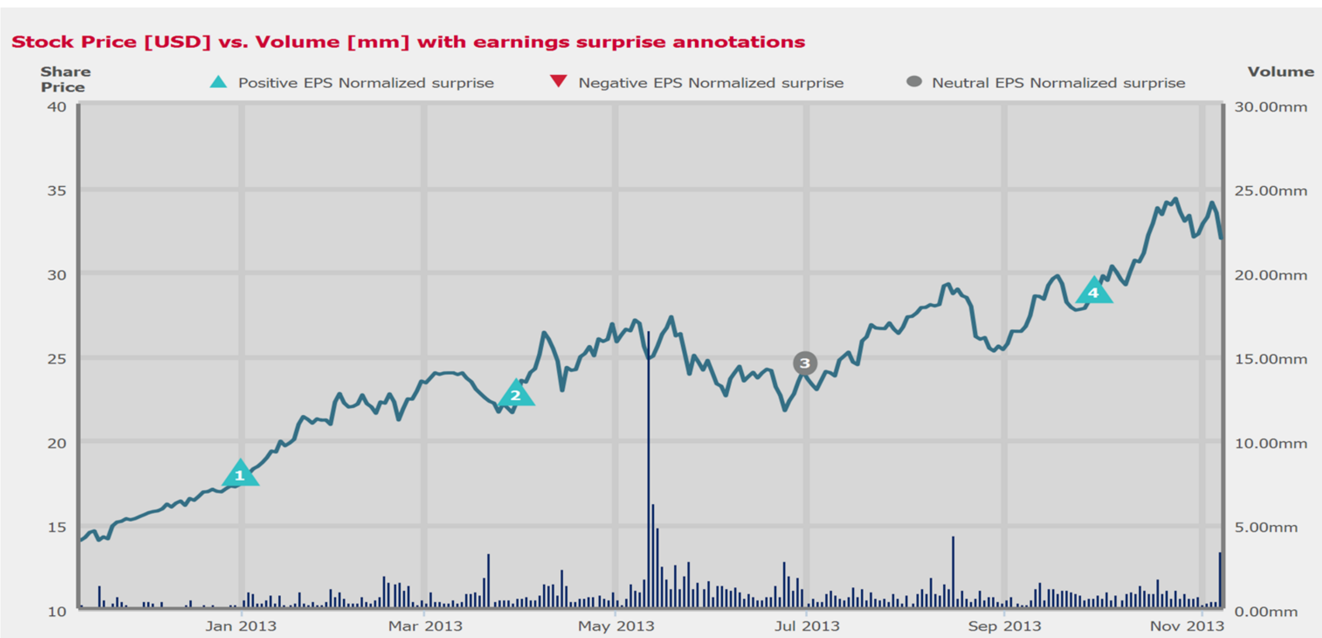
FQ4 2013 Earnings Call Transcripts

Friday, February 07, 2014 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.81	1.06	▲30.86	0.64	4.54	4.80
Revenue (mm)	659.97	795.15	▲20.48	621.33	3695.62	3733.57

Currency: USD
Consensus as of Feb-07-2014 2:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	1.05	1.69	▲1 60.95 %
FQ1 2013	1.22	1.89	▲2 54.92 %
FQ2 2013	0.50	0.50	●3 0.00 %
FQ3 2013	0.94	1.34	▲4 42.55 %

Call Participants

EXECUTIVES

Gary M. Stein
Head of Corporate Communications

Marc Adam Spilker
Former Senior Advisor

Martin Kelly
Chief Financial Officer

ANALYSTS

Brennan Hawken
UBS Investment Bank, Research Division

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Christian Bolu

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

M. Patrick Davitt
Autonomous Research LLP

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

Matthew Kelley
Morgan Stanley, Research Division

Michael Roger Carrier
BofA Merrill Lynch, Research Division

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

William R Katz
Citigroup Inc, Research Division

Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2013 Fourth Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Marc Spilker, President; and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP, after-tax economic net income of $1.06 and $4.80 per share for the fourth quarter and year ended December 31, 2013, compared to $1.69 and $3.82 per share for the fourth quarter and year ended December 31, 2012. We also declared a cash distribution of $1.08 per share for the fourth quarter of 2013, bringing the total for 2013 to $3.98 per share. Later on the call, we'll discuss the composition of the fourth quarter's cash distribution.

For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $159 million and $659 million for the fourth quarter and full year ended December 31, 2013, compared to $172 million and $311 million for the fourth quarter and full year ended December 31, 2012, respectively.

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 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 fourth quarter earnings press release, a copy of which is available in the 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 Mark Spilker, President of Apollo Global Management.

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary, and good morning, everyone. The fourth quarter concluded an outstanding year for Apollo as our financial results for 2013 reflect the strength of our globally integrated and diversified investment platform that we continue to grow. I'd like to take a few minutes to highlight some significant achievements over the past year in areas such as realizations, AUM growth, investment performance, fundraising and our management business.

Our funds returned $23 billion of capital and realized profits to our limited partners during the year, which drove $3.98 of cash distributions per share for our shareholders. This brings total cash distributions paid out to our shareholders to more than $7 per share since our initial public offering in 2011. Our cash distributions in 2013 were driven by robust activity in the public markets where portfolio companies of our funds completed 23 secondary or block transactions, as well as 9 IPOs.

Our AUM increased 42% since the end of 2012 and now stands at approximately $161 billion despite heightened realization activity. This growth was driven by the combination of 3 important factors: strong investment performance, robust fundraising and the continued expansion of our credit franchise, including growth at Athene.

On performance, the fair value of the PE portfolio of the funds we manage was up 49% in 2013 compared to a 30% increase in the S&P during the same period. This strong performance during 2013 bolstered our long-term track record at a 39% gross and 26% net IRR in private equity since Apollo's inception.

On fundraising, we raised $22 billion of new investor capital, driven by our limited partners' strong support of Fund VIII which raised $17.5 billion, and I'll provide additional details on this shortly. We were also successful in raising capital among another strategic -- strategies across our credit and real estate businesses.

On Athene, it's recently completed acquisition of Aviva USA in October transformed the company into a leading fixed annuity provider in the U.S. and added $44 billion of fee-paying AUM to the Apollo credit platform, helping to further solidify our mutually beneficial long-term relationship.

Our 2013 financial results highlight a positive dynamic that we discussed previously, which is the growing earnings contribution from our management business to Apollo's overall earnings profile. Although Athene may be the most visible driver of this evolution, it's just one example of how we are leveraging our integrated platform and scale to create value for our investors by growing consistent cash-generative businesses.

To illustrate this point, from a top line perspective, in 2011, year of our IPO, we generated $490 million of management fee revenues, and this total has grown to nearly $731 million in 2013, an increase of 50%. In terms of profitability, in 2011, we reported $76 million of pretax ENI or approximately $0.21 per share of earnings from our management business. Our management business earnings have increased fourfold since then to $331 million or $0.84 per share in 2013. Importantly, this growth is not just a function of rising AUM. It also reflects the scalability of our integrated global platform and our ongoing commitment to expand the margins of our management business.

Before discussing the highlights of each of our businesses, I'd like to spend a moment on our current flagship private equity fund, Fund VIII, and provide you with some color around this very successful fundraise. We held the final close for Fund VIII on December 31. In total, Fund VIII closed with $17.5 billion on third-party commitments, plus an additional $880 million from Apollo and affiliated investors. We believe the success of Fund VIII reflects the powerful secular trends paving our industry, including increasing allocations to alternatives and the consolidation of GPE relationships among branded scale players with outstanding long-term track records such as Apollo.

A few key statistics regarding the composition of Fund VIII investor base include the following: Investors representing over 90% of Fund VII's capital made commitments to Fund VIII. Almost 25% of Fund VIII third-party commitments representing more than $4 billion of capital came from investors that are new with Apollo. Today, including the nearly 300 LPs invested in Fund VIII, we invest on behalf of more than 800 LPs across the investment products we manage.

Given our efforts to provide broad-based investment solutions for all of our LPs, approximately 7% of Fund VIII third-party commitments representing more than $1 billion of capital came from existing investors that had not previously invested in our private equity funds. The composition of Fund VIII also reflects the expanding geographic footprint of our LP base. By way of example, in Fund V, our 2001 vintage fund, approximately 22% of the capital was committed by non-U.S. LPs. For Fund VIII, 55% of the $17.5 billion in third-party capital raised came from non-U.S. LPs. This is a significant milestone for our franchise and evidence of the strength of the Apollo brand and reputation with the global -- within the global investment community.

Now I'd like to provide you with a few quick highlights across our businesses, starting with private equity. Our private equity funds maintained a strong pace of realization activity in the fourth quarter, which resulted in aggregate distributions of $3.8 billion of capital to our fund investors. In the process, we earned nearly $500 million of realized carry and private equity, which was the primary driver of our $1.08 cash distribution this quarter. Specifically, these realizations were driven by numerous transactions, including secondary and/or block shares of our funds remaining interest in Lyondell, EVERTEC and Countrywide; as well as some of our fund interests in Sprouts Farmers Market, Norwegian Cruise Lines and Taminco.

Additionally, the sale of CKE Restaurants closed. At the end of 2013, 56% of the $23 billion of fair value in the private equity portfolio we manage was held in publicly traded securities, leaving our funds well positioned for continued realizations as windows of opportunity present themselves.

Regarding deployment -- capital deployment within our private equity funds, activity picked up in the fourth quarter from the low levels seen in the second and third quarters. This activity was driven by a number of investments, including the previously announced corporate carve-out with Pitney Bowes, which is now referred to as Novitex Enterprise Solutions; American Gaming Systems, a leading designer and manufacturer of gaming machines; and follow-on investments in several existing situations, including the season's acquisition code transaction. Importantly, our transaction pipeline appears to be steadily building as we seek to identify value-oriented, idiosyncratic investment opportunities.

In the current environment where valuations remain relatively high, we will continue to be disciplined and patient in deploying our funds long-dated, locked-up capital. While 2013 was a lighter year for investment activity, as we have discussed before, we still expect our long-term deployment average to be in the range of $3 billion to $4 billion per year. We take a long-term view towards capital deployment, which is measured in multiple years rather than in quarters, and we remain confident that we will identify ample opportunities for our funds to make attractive investments.

Now turning to our credit business. We crossed a significant milestone during the fourth quarter, ending 2013 with more than $100 billion of AUM in credit, which is comprised of $50 billion related to Athene, $22 billion in U.S. performing credit, nearly $13 billion in structured credit, $7 billion in opportunistic credit and nearly $9 billion in European credit strategies.

Our credit franchise provides us with a powerful platform that enables us to offer our clients a broad range of unconstrained solutions to meet their needs across the risk returns spectrum. We manage an array of dedicated, long-term investment funds that have the flexibility to pursue idiosyncratic and complex opportunities in dislocated credit markets. Some examples of areas we're currently focusing on include energy mezzanine, insurance, oil and gas royalties, health care, shipping, aircraft leasing and emerging markets corporate debt. In addition, our marketing team continues to be engaged in dialogues with a number of clients around establishing strategic managed accounts, primarily focused on unconstrained credit. As we announced previously, during the fourth quarter, we closed on a $400 million strategic account with a sovereign wealth fund to invest in U.S. and European credit. Through these customized accounts, we are able to utilize Apollo's broad range of credit products to address our clients' investment objectives beyond traditional fixed income.

We also remain active in deploying capital in a variety of differentiated credit investment opportunities. For example, during the fourth quarter, our second European Principal Finance Fund, which we refer to as EPF II, agreed to purchase a minority stake in Altamira, a real estate loan servicing and recovery arm of Banco Santander. We believe this transaction which closed last month further solidifies EPF II's investment present in Spain and Western Europe more broadly. Including Altamira, our funds have managed and made investments in loan servicing platforms in Europe, that in aggregate, employ more than 1,000 individuals.

Clearly, we believe the restructuring of the financial services landscape in Europe is creating compelling investment opportunities, and we are in the early stages. Importantly, our funds are flexible buyers of assets with long-term committed capital, a strong brand and track record and significant servicing capabilities. For these reasons, we believe our funds are well positioned to capitalize on the significant opportunities to acquire attractive assets and businesses across Europe.

Lastly, the breadth of our capabilities within the alternative credit is far-reaching, including the corporate securitization market where we continue to be one of the largest managers of CLOs in the United States. We remain active in this market through the issuance of new CLOs in U.S. and Europe, as well as through the refinancing of existing CLOs. In total, we priced nearly $4 billion of CLOs in 2013, including both new issue and refi activity.

On real estate, we continue to build this business by leveraging Apollo's integrated platform and capitalizing on the synergies that exist with our credit activities and expertise. For example, our EPF funds deployed over $500 million of equity into European Commercial Real Estate transactions during the year that involved nonperforming loans, as well as investments that involved distressed or stressed properties. Within the boundaries of Real Estate segment itself, we remain active in real estate debt, with our funds deploying over $2.5 billion of capital in 2013, including $938 million in the fourth quarter that comprised firstly, mortgage loans, subordinate financing and CMBS.

On the equity side, we remain opportunistic across property types and geographies with approximately 70% of AGRE U.S. funds base capital now committed.

In summary, as we look back on 2013, we continued to execute on our strategic plan, and our financial results in the fourth quarter completed an outstanding year for Apollo. We continued our strong pace of realizations and announced distributions totaling $3.98 of cash per share. Our PE portfolio was up 49%. We successfully raised the largest fund in our history in Fund VIII and made strong investor demand, and we continue to benefit from growth in our credit business, including Athene. As we look ahead to the remainder of 2014 and beyond, we believe our growing and evolving integrated investment platform is well positioned to carry the firm forward.

With that, I'll turn the call over to Martin for a few brief remarks.

Martin Kelly
Chief Financial Officer

Thanks, Marc, and good morning again, everyone. Today, I will briefly touch on a few details around the fourth quarter and 2013 financial results before we move onto your questions. Starting with our cash distribution, the $1.08 per share that was declared for the fourth quarter includes our new regular distribution of $0.15, plus $0.93 of other cash earnings. The additional amount above our regular distribution was primarily driven by carry from the sale of equity and debt investments held by our funds.

Following numerous secondary transactions in the quarter, which Marc highlighted, I would like to provide you with some helpful data points for certain of our larger or newer public holdings as of the end of 2013. Fund VI held 45.4 million shares of Sprouts; Fund VI held 42.5 million shares of Norwegian Cruise Lines; and Fund VI also held 32.2 million shares of Taminco. Fund VII held 152.2 million shares of Nine Entertainment, which completed its IPO in December; and Fund VII also held 56.3 million shares of EP Energy, which completed its IPO in January. Based upon announced or settled transactions from our private equity funds since the beginning of January, including the secondary sales of Rexnord and Athlon shares, as well as the block sale of Constellium shares, we have realized approximately $0.32 per share of net realized carry so far in the first quarter.

Turning now to the performance of our private equity funds. Portfolio company investments appreciated by 9% during the fourth quarter, which was driven by 14% appreciation in private portfolio holdings and 5% appreciation in publicly traded holdings, following a particularly strong third quarter.

Regarding portfolio company performance, the aggregate revenues for the Fund VI and VII portfolio companies were up 1% for the rolling 12-month period ending December 31, 2013, compared to the 12-month period ending September 30, 2013, while EBITDA was up by an estimated 2.5% over the same period. Looking at the year-over-year comparison, aggregate revenues were roughly flat for the 12-month period ending December 31, 2013, compared to the 12-month period ending December 31, 2012, while EBITDA was up by an estimated 3% over the same year-over-year comparison.

Moving on to our management business. For the full year 2013, Apollo's management business earned $331 million of ENI versus $223 million in 2012. For the fourth quarter, the management business earned $113 million of ENI versus $63 million in the third quarter of 2013. The quarter-over-quarter increase was driven by a variety of factors.

On the revenue side, management fees were up by $67 million, driven by a rising contribution from our credit business due to Athene, which I'll discuss in a moment. The sequential increase in management fees was also driven by Fund VIII, which added an incremental $7.5 billion of fee-generating AUM in the period. The fourth quarter included approximately $6 million of catch-up fees earned from the beginning of the funds investment period on September 1 of last year that are not expected to recur.

Next, advisory and transaction fees were up $26 million quarter-over-quarter, primarily due to an increase in the monitoring fee we received from Athene, which I'll discuss further, as well as modestly improving core transaction fees.

Turning to expenses, fourth quarter compensation costs were sequentially lower, primarily due to year-end adjustments to discretionary compensation. However, lower compensation expenses were more than offset by higher non-compensation expenses during the fourth quarter. The increase in non-compensation expenses was driven by elevated fund formation costs, principally driven by Fund VIII, as well as incremental costs related to the growth of Athene Asset Management.

Given the general onetime nature of fund formation costs, we do not currently expect the majority of the quarter-over-quarter increase in non-compensation costs to recur.

Regarding taxes, our fourth quarter and full year 2013 ENI effective tax rates were 12% and 11%, respectively. Recall that our ENI tax provision calculation assumes full share conversion and reflects the relative earnings contribution of our management and incentive businesses, which continue to evolve with the growth of our firm, as Marc mentioned.

Moving on, there was approximately $13 million of incentive compensation accrued in the incentive business for the fourth quarter, bringing the total for the full year to $62 million. You may have noticed prior period revisions to our compensation line items within our segment disclosure this quarter, which reflects adjustments to our incentive pool allocation method to more closely align the compensation with the businesses that generate incentive income.

I'd now like to provide some additional information on Athene's impacts on our results this quarter. First, Athene's acquisition of Aviva USA added approximately $44 billion of incremental AUM to Apollo's Credit segment in the fourth quarter. 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 that this is a gross fee and that Apollo, including Athene Asset Management, assumes all costs associated with providing these services.

Second, the percentage of Athene-related assets invested in Apollo managed assets was approximately 15% as of December 31, 2013. As we stated previously, we expect this percentage to increase gradually over time, provided that we continue to perform well in providing asset management services to Athene.

Lastly, Apollo has been receiving and will continue to receive payment of monitoring fees on a quarterly basis through the end of 2014. This fee, 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 fourth quarter, this fee was $44 million, effectively double the third quarter amount. As I mentioned on our last call, the calculation of this quarterly payment is dependent on the level of Athene statutory capital and surplus, which roughly doubled in size following the Aviva acquisition. As a reminder, while this fee is additive to ENI, it is currently being accrued as a noncash item.

Before closing, I'd like to make a final comment related to our balance sheet. In December, subsidiaries of Apollo refinanced their long-term debt at a more attractive spread to LIBOR. And we simultaneously initiated a $500 million revolving credit facility, which remains undrawn today, to provide additional financial flexibility if needed.
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] Our first question comes from the line of Marc Irizarry with Goldman Sachs.

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

Just a quick question on Fund VIII and just how we should think about capital deployment. You guys are -- over the course of history, have been able to sort of catch some disruptions or dislocations in credit and distressed opportunities within your funds. I'm curious when you're out there sort of talking to investors about Fund VIII, what are some of the themes? And do you need maybe a little bit more opportunities in distressed to start to put that money out for Fund VIII at a faster pace?

Marc Adam Spilker
Former Senior Advisor

Thanks, Marc, for the question. I think it's more -- it's broader than just the current environment the way it stands this quarter, which is if you look over the history of the firm, Marc, it's in down markets, the distressed environments, growth environments, that the firm's been able to find idiosyncratic opportunities and perform extremely well. And so LPs have great confidence in our ability to navigate the cycles and navigate the balance sheet. And the investment performance going way back has proven that out. And so -- and I think we've proven our ability to move the dial from distressed to opportunistic buyouts to corporate carve-outs. Clearly, in this environment, we're focused on corporate carve-outs but not limited to that. And so we'll continue to be very flexible and search for idiosyncratic opportunities in a very classic Apollo way. And I think that, that's what LPs are sort of thinking about when they trust us with their capital.

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

Okay. And then just, Marc, if you can give just a little more color on some of the attractive assets in Europe that you mentioned in terms of, I guess, businesses out there? How do you see your current lineup of what you have for your credit businesses, particularly now at Athene versus maybe the platforms that you can add over time? Are you sort of where -- there just still very attractive opportunities out there that can further augment the platform? Or do you have sort of what you need right now to really take advantage of the opportunities in Europe?

Marc Adam Spilker
Former Senior Advisor

We've been talking about this for a couple of years, and there had been and has been much debate over what the opportunities in Europe. And we continue to think that we are still in the early stages of a few things: One is the overall balance sheet leverage coming down in Europe; and secondly, the restructuring of the entire financial services landscape. And we think that this is creating really big, long-term secular opportunities for us. And so I -- on the one hand, I feel good about how much we have grown and the opportunities that we've taken advantage of, but I still continue to believe that we're still early stages of a very long-term opportunity that is going to create great opportunities for us to continue to buy assets and continue to buy businesses. And when you can execute well as we have, we are creating a reputation and a brand in Europe and local markets for being able to have the long-term capital, the team that could work through all the local market complexities and then a little bit behind the scenes. And we seem to mention it on almost every call that the servicing capabilities that we're building up in Europe is a huge competitive advantage, and it still seems, at least to me, that it's early stages for this opportunity that I think will create great opportunities and growth over the next bunch of years.

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

Okay. And then just 2 questions on just, I guess, the private equity fundraising. First, on the placement fees, I guess you noted that 22% of your investors were non-U.S. for Fund V and then Fund VIII, you're now up to 55% of investors are non-U.S. When you think about the placement fees and the sort of acquisition cost of going out and getting global investors, I mean, your re-up rates are high. I'm just curious, is there sort of leverage that you're getting with your scale around fundraising? Or has the mix shifts to more global investors, does that maybe pressure placement fees a little bit?

Marc Adam Spilker
Former Senior Advisor

Well, I don't -- I'm not sure what you're referring to on placement fees. The way I think about it is that what we've said over the last 3 years is that more and more of our LPs are wanting to do more investing with fewer firms. And what we have done is we've made a commitment to having a more solution-based marketing effort. We don't have a global marketing team. As you know, the demand for investment returns and financial returns is as high as it's ever been, and that's true everywhere globally. And so, because we have a global marketing effort, we have global relationships, we have a global footprint, we're just appealing to a broader range of LPs than we had 5 or 10 years ago. And so I think it really is evidence of the demand for what we do well, which is provide investment returns. And doing it on a global basis is opening up tremendous doors for us.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

First question, just on the growth outlook. I think when we look at 2013, pretty much across the board from an asset standpoint, whether it's in credit or private equity, it was a big year for Apollo. So Marc, I think you gave a lot of detail on what you can do on the LP side in terms of the increasing traction.

I think on the product side, are there other products or even other segments that you guys aren't in that you think the dynamics in the industry are changing that make it more attractive? And then maybe on the Athene side, how to grow that business, just when you look out like in a year or 2?

Marc Adam Spilker
Former Senior Advisor

Yes, no, it is -- you asked a couple of really big questions there. One, which is Athene closed Aviva and you raised your largest fund in your history and that's all reflected in 2013. That's great, what's after that? I think that's a great question because it really goes to what's been built here over the last period of time, which is really based upon the fundamental, structural and secular changes going on in the marketplace. And so when you think about the credit business, for example, what we're looking to do is build businesses in areas where we believe that we have expertise where others, for one reason or another, may be abandoning and where our LP will find those returns attractive. And so when we check off the list of credit businesses that we're in today versus where we were 7, 8, 9 years ago, you could see that we've significantly grown the platform and still believe there are many opportunities for us to grow it significantly. And I think that we're just at the beginning of the structural shift that's taking place in the financial markets. And going back to what we said many times on previous calls that the structural shifts, the regulatory change, are making it more difficult for some to be in certain businesses, and our LPs' demand for financial returns in the portfolio has never been higher. So I feel like there is plenty of opportunity for growth. And then I'll highlight that we continue to see a trend towards strategic accounts across credit. And as the market likes to refer to it as go anywhere credit, and that is emerging as an important part of our platform and growth that I think we should all keep our eye on.

Operator

Our next question comes from the line of Matt Kelley with Morgan Stanley.

Matthew Kelley

Morgan Stanley, Research Division

I'm just curious, coming back to the distributions. As you think about where you are in the life cycle of some of your private equity funds versus some of your credit funds, do you think they were more likely to hit sort of a peak in distribution from private equity before credit, or do you think they'll follow a pretty similar path? Or any sort of lag between those 2 as you see kind of where you are in the harvesting cycle will be helpful.

Marc Adam Spilker
Former Senior Advisor

Yes, it's a very important question. What we continue to refer people to, because the question has always been where in the realization cycle, is that -- and I think I -- and I referred to it in my opening comments that there's $23 billion of fair value in the ground, and you could think about what kind of appreciation you want to put on that and what the average distribution per quarter. And you could see that there's plenty of room to go in terms of where we are in the realization cycle. Having said that, our portfolio is up 49% in 2013, and it's really hard to predict and forecast where the markets will go next year. And we had $3.98 per share in distributions. And again, I'm not predicting what it will be, but certainly, 2013 was a very, very good year and one that I think will be hard to repeat. But again, I don't know what the markets will do. And then on the deployment side, deployment has picked up, and we feel optimistic that we will be able to deploy our capital and ultimately down the line, put Fund VIII in a position that we've seen our prior funds. And then I'll just make one more comment which is given the diversity of the platform that we have in real estate and in credit and in PE and natural resources, that there are many sources of distributions I think that are going to be available over the next bunch of years.

Matthew Kelley
Morgan Stanley, Research Division

Okay. And then my follow-up is on your platform, products that you have, specifically on real estate. Obviously, you're kind of early in the formation of that platform, but you've done some nice things with your own organic funds and you have the city funds. Where do you think you can take that platform from here? Is there anything else outside of your current segment and Athene that you're thinking about could be additive to your platform? Or how do you think about that going forward, buy versus build as well?

Marc Adam Spilker
Former Senior Advisor

Yes, we continue to believe there's an opportunity in real estate. We're subscale relative to where we want to be. We acquired the city platform at the bottom of the crisis. It was an equity platform and that's been in runoff. And so we've had to replace all those assets, plus organic growth. And what we try to do over the last couple of years is make sure that we're executing our real estate strategy consistent the way we think about investment capital, which is nuanced, idiosyncratic, complex. And while we are growing our real estate private equity business, the real estate debt business has grown more quickly, and that's something that we feel that we have built great expertise in and see continued opportunities, as well as our integrated platform. And I mentioned in my remarks that on the one hand, we report our real estate segment, which is our dedicated real estate business. On the other hand, if you look through private equity and the rest of our credit businesses, including the EPF, that we do real estate and real estate-related investment there. And so I think of our real estate footprint as larger than what you see in the segment. And I think that, that will just continue to grow. And our team has grown and our expertise has grown, and it's becoming more global, particularly in Europe.

Operator

Our next question comes from the line of Robert Lee with KBW.

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

I guess the first one I have is you guys have clearly, for a while, talked about the opportunities in Europe, particularly in the credit space. And I'm just curious, I mean, unlike some of your peers who have books of a lot of energy on Asia and to knock them up as quite as much in conversations with you guys. So could you maybe update us on some of your initiatives there and kind of how you feel about your footprint in that marketplace?

Marc Adam Spilker
Former Senior Advisor

So you're asking specifically about Asia?

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

Yes.

Marc Adam Spilker
Former Senior Advisor

Yes, so Asia's always been -- they're, generally speaking, a challenge because as you know, we are valued-oriented, contrarian. And I know every market is slightly different but generally more growth-oriented. So it has made it more challenging. We divide Asia really into 2 businesses, which I think is apropos of our entire platform. One is as part of our global PE footprint, we have a team in Asia. And we highlight the Nine investment, and that's integrated into our global private equity franchise where we look for the best values anywhere in the world. And then the second piece, the second line of business really is we've brought the rest of it, we've brought the entire thing together in an integrated business, working as a team, looking for distressed, looking for idiosyncratic credit and real estate transactions. And we invest in Asia some as part of global portfolios and we have small funds dedicated to Asia, and we will grow that based upon the size of the opportunities that we see. And for now, we've seen much larger opportunities in the U.S., and we're seeing larger opportunities in Europe. But Asia is a place that we're going to continue to invest in.

Operator

Our next question comes from the line of Bill Katz with Citigroup.

William R Katz
Citigroup Inc, Research Division

In terms of -- by the way, thank you for the color on both the Fund VIII and the reported date realizations. Very helpful. Just on the Fund VIII Marc, sort of curious. As you talk with clients, you mentioned you're seeing a rising allocation to global integrated platforms. Could you give us a sense of where the volume is coming from? Is it coming from other alternative managers? Is it coming from other generic products? And what's sort of the appetite on a go-forward basis?

Marc Adam Spilker
Former Senior Advisor

Thanks, Bill. I mean, again, this goes back to the structural shifts. I mean, I think within "PE", we've talked about a bifurcating industry where the larger scale, best performers are gaining more assets. And you probably know the statistics as well as I do, that many of the funds that haven't performed as well, their next -- their recent funds or fractions of what their prior funds were and the firms that have done better are raising funds that are equal to or greater than. So that's one element which is rational. The other element is that when you look at a typical asset allocation of a pension plan, the thing that we keep on saying is that if you look at where sovereign and government yields are, if you look at high-grade corporates, and if you look at agency securities, the yield on those and then the expected returns going forward over the next bunch of years, those do not seem like investments that will be accretive to a portfolio where your liabilities are growing at 7.5% or 8%. And so the trend -- people in the market generally referred to it as alternatives, and we tend to think of it more as unconstrained credit. So increasing allocations from the fixed income bucket towards unconstrained credit is one of the, I think, the biggest areas of growth. And I think that the 2 that highlight is where a lot of the growth is coming from.

William R Katz
Citigroup Inc, Research Division

And then just maybe more of a modeling question, but as you consolidated the Athene, Aviva transaction, how do you think about asset growth for that particular line in 2014?

Marc Adam Spilker
Former Senior Advisor

Athene has put out a lot publicly, and you could take a look at that and put some kind of growth rate on that. And I don't know the answer to the question other than Athene has built a great platform. And I would assume that there's going to be growth, both organically and potential for inorganic growth. And so the AUM will scale proportionate with that. They run a very good business. They have a - they do have a sales force where they can dial up organic growth. And while it's hard to imagine the pace of M&A activity in that part of the industry being as robust as it has been the last 2 years, I don't think the reorganization of that business is completely finished. And so there are some potentials there. But it's too hard to predict. But the AUM growth would scale proportionate.

Operator

Our next question comes from the line of Brennan Hawken with UBS.

Brennan Hawken
UBS Investment Bank, Research Division

So just generally, are you guys seeing an increase in confidence from strategic buyers that could provide maybe another avenue to sell assets in that channel?

Marc Adam Spilker
Former Senior Advisor

It's a good question. I would say it seems like that confidence has sort of come and gone over the cycle of the market over the past couple of years. I mean, you would imagine that if we get to the other side of taper and organic growth in the economy is solid, that this backlog of corporate activity would start to come out. I would say that, that is, in my mind, the likely outcome. So while -- at the present moment, strategic dialogue has picked up slightly, it's always very hard to predict which one of these things get across the line. But I feel like there is an expectation that growth in the economy will continue to go up in a muted way but nonetheless improve, and that will raise confidence at the corporate level which will inspire a bunch of activity that has felt like it's been in the backlog for 2 or 3 years.

Brennan Hawken
UBS Investment Bank, Research Division

Okay, all right. And then my follow-up, so we've got Lyondell sales sort of completed here. In speaking to investors, there's some concern about how you guys fill that hole on the distribution side. Can you give some color around how you're thinking about that and whether or not you feel as though there's plenty in the pipeline in that $23 billion that's relatively close to realizations that can allow for current levels to be sustained?

Marc Adam Spilker
Former Senior Advisor

There were 2 questions there. I mean, the $23 billion is a number. And so, eventually, hopefully, that will all turn into realizations. And so you can do the math on that. On Lyondell, on the one hand, I would acknowledge those kind of investment opportunities and results don't come around every day. So that will be a hard one to replace. On the other hand, if you look at the growth in net IRRs of Fund VII, it is on our historic average. And so Fund VII wasn't just about Lyondell; it was about a lot of good investments. And so you just have to look at our long-term investment returns and decide whether or not you think that we're capable of continuing to do that, which we think we are. And as much as we all would like to have more Lyondells, that there are going to be plenty of opportunities, we feel to continue to perform the way we have historically that will turn into the kind of distributions that we all hope and expect.

Operator

Our next question comes from the line of Christian Bolu with Crédit Suisse.

Christian Bolu

Just back on Athene, as we look further out, how do you think about the overall implications for rising rates on Athene? Seems to me like it could spur good demand for kind of fixed annuity products but may have negative implications for kind of Athene's investment portfolio. I'm just curious to how you think about the overall implications.

Marc Adam Spilker
Former Senior Advisor

Yes, a lot has been discussed by Athene about the topic, and I can refer you to what had been publicly disclosed about the portfolio. And I would say that what Athene and Jim Belardi have said is that they have positioned themselves for higher rates. And so from a point of the current portfolio construction, reinvestment risk is something we've focused on. And if rates are higher, the ability to invest higher will be probably accrue to the benefit of Athene. And the other part of your question, which I think is really, really important, which is that the success of Athene and the going forward growth, a lot of that is going to be driven by the incredible change that's happening in the retirement part of the business, which is the aging population. And you know the statistics as well as I do that for the next 15 years, there'll be 10,000 new people in the bucket of 65 and older, and fixed annuities are a great retirement vehicle. And so the demand for retirement product will continue to grow. And I think that, that is one of the big secular trends that we are starting to capitalize and will continue.

Christian Bolu

Just a quick follow-up. In the credit business, looks like FRE margins expanded nicely during the quarter. Do you see this trend continuing now you have a much bigger AUM base from Athene?

Martin Kelly
Chief Financial Officer

Sure. Christian, it's Martin. It has expanded. I think that reflects a full quarter of the fee revenues and associated expenses from the incremental assets coming in from Aviva. I think looking forward, we don't -- because Athene Asset Management is integrated, we don't plan to present the direct expenses of Athene Asset Management. But I would think that the costs may increase modestly as the platform continues to grow out. But it shouldn't be significantly different from where we see it now.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Just outlook for fundraising. 2013 was an awesome year. For PE, was there anything we should expect for 2014? And then as you think about the pipeline of fundraising for credit, excluding Athene because Athene should be huge as well, how does that look versus what you guys did in 2013? Better, worse, same, just any color would be helpful.

Marc Adam Spilker
Former Senior Advisor

Yes, again, it's -- with the integrated assets from acquisition at Athene and raising the largest fund we've raised in our history, it is -- it's going to be hard to repeat that. Having said that, our platform continues to grow. There are a number of funds that were in the market within credit that we continue to raise capital for. We're focusing on illiquid credit investing where we still see good risk-adjusted returns. Our insurance practice continues to grow, and we believe that -- and we are and continue to raise capital against that. Natural resources is a big opportunity. Financial services continues to be a big opportunity. There are opportunities for new funds and co-investments. And managed accounts continue to be a really big focus on the part of our LPs, and our global marketing team is very focused on that. But what I was really trying to focus on some in my opening comments and a little bit in answering some of the questions is that broadly across the credit markets, big opportunities, and I still think that we are in the early stages or at the beginning of the secular shift. And so there are opportunities, I believe, that are going to come up over the course of the year that aren't currently on the plate, plus all the things that we're currently doing. And so at the beginning of the year, I acknowledged that you look at the -- you look at what you have to do for the year, it always seems daunting, but when you step away from it, look at the opportunity that we're faced with, I have a high degree of confidence that big growth is ahead.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay, fair enough. And then you get a lot of information and data from your portfolio companies. What is it telling you about 2014?

Marc Adam Spilker
Former Senior Advisor

There's not -- Martin went through the statistics. And when you go through it all, there's not a huge amount of information there. I would say, generally, to me, it feels like things continue to improve but not in a straight line. And it feels to me that there's a desire for things to get better. So it feels like people will be more on the constructive side. But '14 will probably be a more volatile year than '13. We've seen it in the first month of the year, but we probably come through '14 with an improved equity market. But it's hard to believe that '14 will mirror '13.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

First question, just a numbers question, really quick for Martin. You mentioned some of the increase in the non-comp expenses quarter won't recur. Just wondering whether you can give us kind of a decent run rate for that line item going forward?

Martin Kelly
Chief Financial Officer

Yes, so the comment I made was that the -- was really directed to the placement fees. So within Q4, we had placement fees that you can see itemized. And then there were certain incremental costs that were fund organization costs, so associated with raising funds that the AGM has to absorb. And they are of a one-off nature. Now I guess offsetting that somewhat is the platform's growing. And so that -- we're trying to manage that in a sensible way to improve margins. But with the growth comes increasing costs. But compensation or not compensation, growing out the investment teams and the infrastructure that's needed to support that. So it's hard to predict, but as we expect the platform to grow, then the cost will grow in a way that we expect will preserve the margins and grow the margins over time.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay. And then my follow-up, maybe for Marc, I know it has kind of been asked a few different ways, but I'll try maybe asking it differently. When you look at your pipeline today and you mentioned that it is starting to get a little bit better, I'm just trying to frame up the size of the investing pipeline. And maybe you could help us figure that out or answer that by maybe looking or talking about your pipeline today and maybe comparing it to how it looked couple of quarters ago or the start of the year.

Marc Adam Spilker
Former Senior Advisor

Yes, as I've said in my opening comments that it looks better. But what we always say about the pipeline is things aren't done until they're done. And sometimes you execute everything in your pipeline and sometimes it's nothing. And so -- but given where we are and what we see in the market, we continue to believe in the $3 billion to $4 billion in PE. And the number of opportunities that we're seeing in credit seems to be growing. And while PE had a lower than cycle average last year, credit continues to grow. And you see all the transaction that we're announcing. So it's all slightly improved, but we'll just have to see what we get across the line.

Operator

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

M. Patrick Davitt
Autonomous Research LLP

Most of my questions have been asked. I just have one quick question on the semantics around Fund VIII. How much of the management fees associated with that $17.5 billion was not in 4Q at all, given that the final close was on December 31?

Martin Kelly
Chief Financial Officer

So Patrick, all -- the Q4 reflects a full quarter's worth of management fees on the full $17.5 billion because the fees are retroactive back to the first closing, which happens in September. So the one point I made on the call that was included were $6 million of catch-up fees, which is that look-back effect. But if you take that out, it's a sort of clean full year, full quarter's worth of fees.

Operator

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

Brian Bertram Bedell
Deutsche Bank AG, Research Division

First question is another one on the fundraising side. Maybe if we can think of the pace. Obviously, the opportunities are tremendous longer term. You laid out a very good case for that, Marc. But if we could maybe look at the pace for 2014 and if you can make comments on areas that you talked about in Europe, given the restructuring of the financial landscape there, like how immediate is that opportunity for you. And then also on the strategic managed accounts within unconstrained credit, the capacity to ramp that up even over, say, the next 12 months. And then also the 15% of Athene managed by Apollo, that gradual increase and what kind of magnitude of increase should be effective over the next year in that?

Marc Adam Spilker
Former Senior Advisor

Yes, can you sort of repeat the first part of the question?

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Yes, the first part was I think that there's been 3 areas: Europe, the strategic managed accounts and Athene. And the basis of it was really the pace of the opportunities. All great long-term opportunities, but if we can think about what we should sort of roughly frame in for 2014. I know that's hard to predict, but just from a magnitude perspective of that pace, that sense.

Marc Adam Spilker
Former Senior Advisor

Yes. I would say PE-wise, 2013 felt like a below-average year in terms of investment pace. And our hope is that 2014 is better. The investment pace in credit, '13 is probably a good baseline, but we continue to see greater opportunities. And then when we -- prior to Aviva, we had 6 of 16, which was almost 40%. At that point, we said that, that doesn't seem reasonable that will -- is the right long-term number. Then we made the acquisition. It went to 6 of 60, and now it's up to 9 of 60. And given the opportunities that we're seeing, I think it's fair to assume that, that number will go up. But there is no target. That number goes up when we find investment opportunities that make sense for Athene.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

And then on the strategic managed accounts and, again, the pace of the opportunity within Europe in the context that you talked about?

Marc Adam Spilker
Former Senior Advisor

Yes, strategic accounts kind of ebb and flows. 2 years ago, we did a lot of very sizable -- and what we said then, which turned out to be true that it was unreasonable to assume that pace. But there is a steady stream of dialogues around strategic accounts. So I continue to believe that will be a core part of our business. And that's really focusing on broadly investing across the credit platform, which is a big theme that I think will continue. So I think that opportunity will grow. And I also think that, that opportunity is important, not just for institutional, but for retail. And then Europe, like a lot of the things we've talked about, I still believe is in its earlier stages, even though we've been talking about it for 5 years. I still think Europe is in its early stages, and we are starting to see a little bit of an acceleration of that opportunity.

Operator

It appears we have no further questions at this time. We would now like to turn the floor back over to Mr. Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Great. Thanks, operator. Thanks, everybody, for taking the time to participate in our call this morning. And as we said, if you have any follow-up questions, please feel free to call me or Noah Gunn. Thanks very much.

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