S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

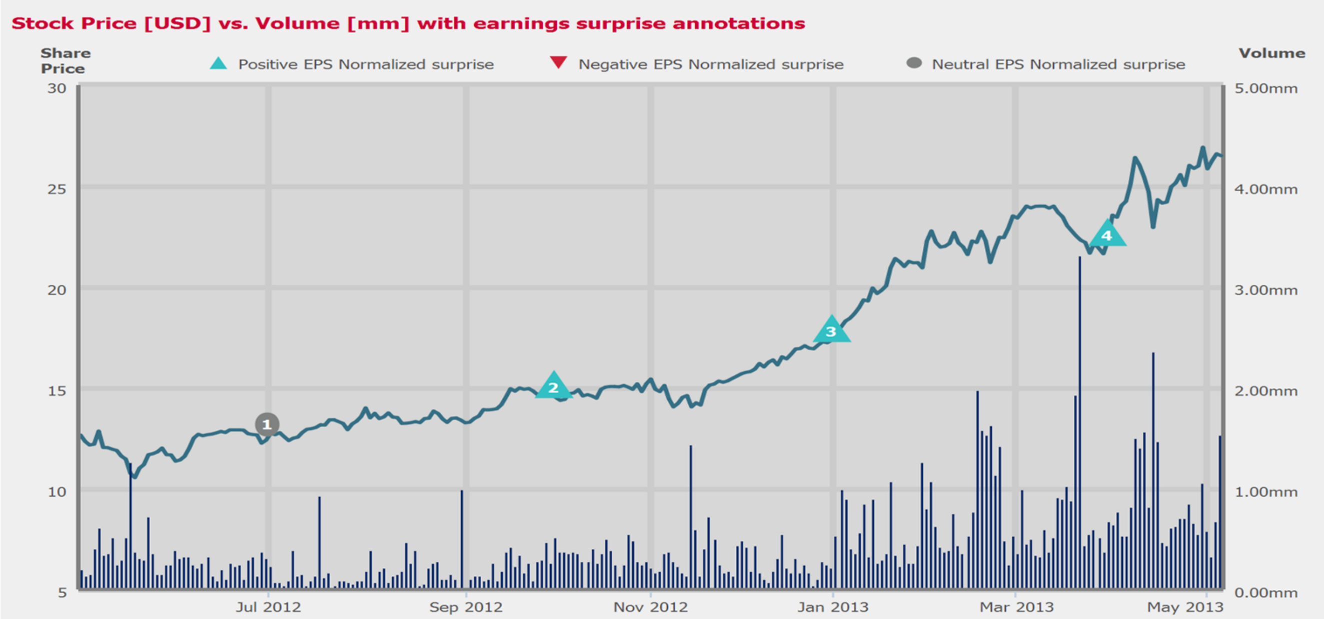
FQ2 2013 Earnings Call Transcripts

Thursday, August 08, 2013 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.50	0.50	0.00	0.57	3.68	3.18
Revenue (mm)	495.86	497.26	0.28	563.90	2993.66	2666.82

Currency: USD
Consensus as of Aug-08-2013 12:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	(0.11)	0.05	NM
FQ3 2012	0.74	0.98	32.43 %
FQ4 2012	1.05	1.69	60.95 %
FQ1 2013	1.22	1.89	54.92 %

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2013 Second 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 aftertax economic net income of $0.50 per share for the second quarter ended June 30, 2013, compared to $0.05 per share for the second quarter of 2012. We also declared a cash distribution of $1.32 per share for the second quarter of 2013, which is the largest quarterly distribution since Apollo became a public company in early 2011. Later on the call, we'll provide additional details regarding the composition of the second quarter's cash distribution.

For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $59 million for the second quarter ended June 30, 2013, compared to a loss of $41 million for the second quarter of 2012.

Today's conference call may include forward-looking statements and projections, and we ask that you refer to our most recent filings with the SEC for important factors that could cause actual results to differ materially from these statements and projections. We don't undertake to update our forward-looking statements or projections unless required by law.

We'll also be addressing 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. 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 good morning, everyone. During my prepared remarks this morning, I'd like to touch on a few highlights regarding Apollo's strong second quarter results, including our recent fundraising and realization activity and the continued growth and diversification of our integrated investment platform. I will also provide you with a quick update on our business segments.

First, during the quarter, we raised nearly $7 billion of new investment capital across the firm. As we have said before, we believe Apollo is well positioned to capitalize on several powerful secular trends that are saving our industry, including increasing allocations to alternatives as institutional investors seek to meet their return objectives in a low interest rate environment, increasing constraints on global financial intermediaries, the emergence of unconstrained credit as an asset class and the consolidation of limited partner relationships among branded, scale investment managers like Apollo that possess strong track records, robust infrastructures and a broad spectrum of alternative investment solutions.

Against this backdrop, we are pleased to note that as of today, we have received commitments of approximately $8.4 billion of capital for our newest flagship private equity fund, which we refer to as Fund VIII.

Second, our funds continue to monetize investment portfolios as the window of opportunity remains open, resulting in significant realizations and cash distribution for our fund investors and shareholders. During the second quarter, our funds generated more than $7 billion of realizations, and we declared a distribution of $1.32 per share, bringing the total cash paid out to shareholders over the last 4 quarters to $3.34 per share.

Third, we continue to diversify and grow our business in a variety of ways by leveraging our integrated platform, our value-oriented contrarian-investment style and our credit expertise. For example, within natural resources, in addition to our private equity funds activity, funds we manage are providing mezzanine and other types of financing to energy companies. And on behalf of our funds, we're also evaluating opportunities, such as purchasing oil and gas royalties and establishing joint ventures for oil and gas drilling.

Within credit, we continue to expand our credit analysis and underwriting capabilities and enhance our focus on proprietary origination, which has enabled us to offer our clients an increasing array of unconstrained credit solutions. And within real estate, we have continued to execute a single-family home for rent strategy. The funds we manage have recently formed a joint venture with a high-quality servicer to acquire small balance non-performing loans in the United States and another venture with local investor to acquire office properties in targeted London submarkets. In addition, we continue to broaden our geographic footprint by expanding our Houston office, which we opened last year. And we are planning to establish a presence in Canada.

With those key highlights in mind, I'd like now to provide a few more details on our business segments. Starting with our private equity business, I've already touched on Fund VIII, and I wanted to provide you with some additional details regarding recent realizations by the private equity funds we manage. During the second quarter, there were significant realization activities across our private equity funds, which resulted in aggregate distributions of $5.7 billion. These distributions are notable, not only for their total size, but also for the depth and breadth of realization activity, which took place across the investment portfolios of our funds. Specifically, these realizations resulted from a wide range of capital markets and M&A transactions and comprised more than a dozen discrete realization events during the second quarter, including the strategic sales of Metals USA, SourceHOV and our fund's remaining shares in Charter; secondary share sales for Lyondell, Realogy, Rexnord and Berry Plastics; the sale of shares in the recent IPOs of EVERTEC and Constellium and dividend recaps for CKE, Sprouts and Constellium.

Following the robust realization activity which occurred during the second quarter, our funds have continued to monetize investments during the third quarter through secondary sales for Lyondell, Realogy and Berry Plastics. It is worth noting that the recent secondary sales of our funds holdings in Realogy marks the end of this successful investment for Apollo.

In addition to these recent secondaries, I'd also like to highlight that just last week, 2 of our private equity funds portfolio companies completed successful IPOs: Athlon Energy and Sprouts Farmer Markets. In the case of Athlon, our funds sold a small portion of their holdings in connection with the IPO, and Martin will provide additional details regarding recent monetization events during his remarks.

Now turning to our credit business. At the end of the second quarter, we had $62 billion of total credit assets under management, including $25 billion in U.S.-performing credit, $12.5 billion in structured credit, $6.5 billion in nonperforming loans, $6.3 billion in opportunistic credit with the balance of our credit assets related to European credit and Athene. This diverse offering of unconstrained credit funds enables us to provide our clients with a broad range of solutions to meet their needs across the risk-return spectrum.

During the second quarter, we continue to diversify and grow our credit business as we raised more than $600 million of new capital in several areas, including our U.S. performing credit and insurance-based investment strategies, as well as our latest credit opportunities fund, which we refer to as COF III.

In addition, as we have discussed in prior quarters, we continue to maintain ongoing dialogues with some of our larger investors around establishing strategic managed accounts where they can customize investment portfolios across Apollo's range of credit products to meet their risk-reward targets. With respect to capital deployment, we remain patient with our fund's long-dated capital, and we're able to identify idiosyncratic investment opportunities in a number of areas, including our insurance-based investment strategies and European nonperforming loans.

In addition, during the second quarter, Apollo Investment Corporation, our publicly traded business development company, had its second most active quarter ever as it completed more than $785 million of new investments in a wide range of industries with a meaningful contribution from specialty verticals, including energy and aviation.

Lastly, just to touch briefly on real estate, we continue to grow this business by leveraging Apollo's integrated platform. At the end of the second quarter, roughly 60% of Apollo's total real estate AUM was dedicated to credit strategies, and 40% was dedicated to equity strategies. From a deployment perspective, we remain active in both strategies during the quarter.

Notably within credit, we closed a $300 million mezzanine loan secured by a core commercial real estate property in London for one of our managed accounts. Within equity, we remain active across property types and geographies.

In summary, our results for the second quarter reflect the strength of Apollo's integrated global platform and value-oriented investment approach. The funds we manage have continued to perform well, which has enabled us to raise new capital and provide significant distributions to our investors. We have also continued to diversify and grow our business as we seek to capitalize on the favorable secular tailwinds at our industry and leverage our position as a leading global alternative investment manager.

I'll now turn things over to Martin.

Martin Kelly
Chief Financial Officer

Thanks, Marc, and good morning, everyone. Today, I'll briefly touch on a few details around our second quarter financial results.

Starting with our cash distribution of $1.32 per share declared for the second quarter of 2013 includes the 3 primary components that we've talked about on prior earnings calls. The first component includes our regular distribution of $0.07; and the second component represents approximately $0.07 from the recurring portion of our realized carry from interest and dividend income earned by the funds we manage.

The third component generally includes onetime realizations, as well as nonrecurring special dividends that our funds may receive from their portfolio of company investments. And during the second quarter, there was approximately $1.18 per unit associated with this component of our quarterly distribution.

Following up on Marc's comments about recent realization activity, based on -- based upon completed and settled transactions since the beginning of July, including secondary sales of Lyondell, Realogy and Berry Plastics, we have realized approximately $0.56 per share of net realized carry so far in the third quarter.

Turning now to our private equity funds. Our portfolio of company investments appreciated by 5% during the second quarter. This favorable performance was driven primarily by Fund VII, which appreciated by approximately 9% and generated more than $220 million of carried interest income during the second quarter.

As we have done over the last few quarters, we'd like to provide you with a few helpful data points for certain of our larger and newer public holdings, including 5 IPOs that were completed either during or subsequent to the second quarter. The funds we manage currently hold 43.8 million shares of Lyondell, including 28.5 million shares in Fund VII, 9.9 million shares in COF I and 5.4 million shares in Fund VI.

In April, EVERTEC completed its IPO, and there are 23 million shares held in Fund VII. And Taminco completed its IPO, and there were 41 million shares held in Fund VII. In May, Constellium completed its

IPO, and there are more than 37 million shares held in Fund VII. And just last week, both Sprouts and Athlon completed their IPOs. Fund VI holds 54 million shares of Sprouts, while Fund VII holds 56 million shares of Athlon.

Regarding portfolio company performance, the aggregate revenues for the Fund VI and Fund VII portfolio companies declined by less than 1%, while EBITDA was essentially flat for the rolling 12-month period ending June 30, 2013, compared to the 12-month period ending March 31, 2013.

Looking at the year-over-year comparison, aggregate revenues were down by an estimated 3% for the 12-month period ending June 30, 2013, compared to the 12-month period ending June 30, 2012, while EBITDA was up by an estimated 3% over the same year-on-year comparison.

Moving on. There are a few items I'd like to briefly highlight with respect to our Management Business results. For the second quarter of 2013, Apollo's Management Business earned $89 million of ENI, which was driven by higher management, advisory and transaction and incentive fees. Our advisory and transaction fees for the second quarter, which totaled $65 million, included more than $23 million of nonrecurring transaction fees from several portfolio companies that completed IPOs during the quarter, including Taminco, Constellium and EVERTEC.

In addition, there was approximately $21 million in advisory fee revenues from Athene in the second quarter. I also want to point out that we have moved this Athene advisory fee revenue from the private equity segment to the credit segment to reflect the alignment of Athene within our credit business, where we are already including the management fees from Athene Asset Management.

Turning to expenses. As we have noted in prior quarters, there was approximately $21 million of incentive pool compensation accrued in the Incentive Business for the second quarter of 2013 compared to $12 million for the first quarter of 2013.

Before I conclude my prepared remarks, I'd like to provide some additional information on Athene.
As of June 30, 2013, there was $15.7 billion of AUM related to the Athene Life Reinsurance platform.
Approximately $6.6 billion of this amount is currently being managed directly by Apollo across our funds.
And we continue to provide asset allocation and related portfolio management services across the entire $15.7 billion.
With that, we'll turn the call back to the operator and open up the line for any of your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Robert Lee of KBW.

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

I guess the question I had is on Fund VIII. I'm just kind of curious. Could you give us some color on kind of what you're seeing in terms of the mix of LPs? No -- from existing clients to new clients, and then related to that, maybe how the -- if there's any change in the general terms. Are you saying that you're having to give up say, more transaction fees in this version or any change in kind of the fee schedule?

Marc Adam Spilker
Former Senior Advisor

Yes, thanks for the question, Rob. I would say it's too early to tell ultimately where the mix will be. But what we've said before is that over the past bunch of years, we've had an increasing percentage coming from international LPs versus domestic, so strong on domestic, but growing international, which we think is a good trend. And we've seen that so far and expect that to continue. In general, what we have said about terms generally is that the market has moved more towards where we have been. And so from our point of view, Fund VIII terms are essentially where, more or less, where they have been in prior funds and on the margin except for one term, which is we have moved from 68% offset to 100% offset. That would probably be the only notable change in terms.

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

Okay. Great. Then maybe just my follow-up, going back to Athene and Aviva. I guess based on just some comments from Aviva, I guess you guys today are still looking at a, I guess, late 3Q, 4Q kind of close, I think. But can you maybe just update us if there's any update on how you expect with the close, those assets could be split up? I guess right now something like 40% or so of Athene's assets are sub-advised in other Apollo products. So maybe, is there a current thinking it will be a somewhat similar proportion? And then maybe just refresh our memory on what proportion of existing Athene assets are actually in funds that have some type of incentive component?

Marc Adam Spilker
Former Senior Advisor

So in terms of our expectation, I think you have it right. I probably got that from the AAA call this morning. So end of Q3, early Q4 is our best guess. Secondly, on the percentage of the Athene assets managed directly by AGM, and Martin just went through it, almost 40%. That's as high as it's been. The expectation, if we get to the other side of the close, is that number will drop significantly and then grow back over time as we find the right investments for the Athene balance sheet.

Operator

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

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

Marc, can you talk a little bit about the pace of capital deployment in private equity? We're hearing, obviously, and seeing, I guess, some data points that would suggest that it's tough putting capital out in this current environment. It's difficult. Maybe where are some of the regions or areas where you think when you're out there talking to investors, maybe about Fund VIII that you'll be able to put capital to work and maybe the pace, sort of the pace of capital deployment from here going forward.

Marc Adam Spilker
Former Senior Advisor

Yes, thanks. In the big picture, no doubt. And you've obviously heard from others and what we've said is for us, it's definitely a better market for selling than it is for buying. But on the other hand, we continue to believe that given the way that we source transactions and the off-the-beaten-path nature of what we look for, that we continue to believe that we can find investment opportunities that are historically to return. The second quarter in PE was no doubt lower than our historic average. But when you look at the first 6 months of the year, I think we're running just a little bit below our historic average. And in the quarter, while I wouldn't say robust, we definitely found some things in credit and real estate that were interesting. So while we agree from an investment point of view, it's been more challenging to put capital to work, we still believe that if you're disciplined and have proprietary origination that there are still areas to put capital to work. And then on the larger question of the opportunities, it's not necessarily related to Fund VIII, but we continue to believe, and I talked about this a little bit in my opening comments, natural resources continues to be a very interesting area for us both on the equity side and on the credit side. And while the dynamics in Europe have changed a little bit, certainly, we continue to believe that that's an interesting place to allocate capital in our EPF business.

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

Okay, great. And just, Martin, just one quick one for you. I get the guidance on distributions of things that have closed so far this quarter, the $0.56. Is there anything that's pending, or any sort of transactions that are out there, but haven't closed yet that might also result in some carry?

Martin Kelly
Chief Financial Officer

I can't really talk about forward transactions beyond the transactions we mentioned, which accumulate to $0.56 of net carry for the quarter.

Marc Adam Spilker
Former Senior Advisor

Yes, I would say there are some transactions pending, but due to quiet period considerations, just can't comment at the moment.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Maybe on the fee-paying AUM, I just want to understand that if we look at the table and we look at the amount of capital committed versus deployed, it looks like you would be kind of approaching when like Fund VIII would be moving into fee-paying AUM. But when we look at the dry powder, that looks like a larger amount. So I just wanted to understand, when we think about Fund VIII, when we would expect that to start to enter the fee-paying bucket just going forward?

Marc Adam Spilker
Former Senior Advisor

There's just a -- there's a dynamic when you raise a new fund that you have to turn it on and call capital, which we have not done yet. And so that's currently under consideration. And when we turn the fund on officially, it'll turn into fee paying.

Martin Kelly
Chief Financial Officer

And just to add to your, the part about the dry powder for private equity. Yes, we're showing $13 billion at the end of the second quarter. Approximately $6.6 billion of that was from the first close of Fund VIII, which is included in that $13 billion. In addition, there is capital remaining in Fund VII that has not yet been deployed, and that also would include some Fund VII that will be held back just for potential follow-on investments within the portfolio. There's also some capital remaining from Fund VI, which is available for follow-on investments. And then lastly, there is nearly $1 billion of capital from the natural resources fund, which has not yet been deployed.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, got it. That's helpful. And then just as a follow-up, when we look at some of the regulatory changes among the financial space and on the larger financial institutions, I see that you guys have been pretty innovative whether it's been on the credit or the lending businesses, the insurance business. It seems like there might be more opportunities in the commodity space. You mentioned natural resources. Just trying to get a sense of like, when we think about those 3 buckets and maybe there's more, like the potential size of the opportunities versus how far along do you think we are at this point? Meaning are we in like the third inning, and there's significant, more opportunity for firms like yourself?

Marc Adam Spilker
Former Senior Advisor

Yes, so -- and I was trying to go through some of that in the script, which is what we're trying to do in the background is build, especially within credit, a bunch of different credit businesses where they have the following characteristics. They require significant credit underwriting skills. They're in line with our historic expertise, and they are businesses that maybe start from, for capital given the constraints that are being put on the financial system. And in some cases, those markets are quite large. And so from our point of view as a big strategic view, the addressable universe for us continues to grow. It's very hard to say what inning is it because I don't really know exactly what the Dodd-Frank and the Volcker implementation is going to look like and how Basel III will ultimately -- the impact of Basel III. And so the landscape is still shifting. But if you take a reasonable view on how this will all shake out, it's going to continue to create a big opportunity for us to grow in these businesses, and we're spending a lot of time across the firm to grow in those places that we think we have a competitive advantage.

Operator

Your next question comes from the line of Howard Chen of Credit Suisse.

Howard Chen
Crédit Suisse AG, Research Division

Credit performance was really strong, both in terms of overall returns and realizations this quarter. Just hoping you could expand on what helped drive both those trends in the June quarter and any impacts you may have seen from the backup in treasuries here.

Marc Adam Spilker
Former Senior Advisor

Oh, yes, thanks, Howard. There've been a lot of questions about the interest rate cycle and what's going to be the net effect. And what we had been saying, and I'll just kind of repeat it a little bit is that if you look at our -- the construction of our credit portfolios, #1, is we've been saying for a while that we think rates are going up, and we have positioned ourselves for that. And then secondly, the business tends to be barbelled where $25-or-so billion of our senior loan business. The majority of that is in floating rate instruments, which obviously have a lower duration. And a lot of the rest of it is in idiosyncratic positions that obviously have some tie to the rate market, but much more valued off of the specific asset. And so not to say that we're immune. But we've structured the portfolios so that when rates go up, we were going to minimize any of the drawdowns. And you saw in the second quarter, you commented that the majority of our funds still have positive performance even in light of the market moves in June.

Howard Chen
Crédit Suisse AG, Research Division

And Marc, how about just the realized income within that business? In the past, you've called out things like contributions from Lyondell. Did you get called out on a lot of debt during the quarter? Could you give a little bit more texture around the realized income and credit?

Marc Adam Spilker
Former Senior Advisor

Yes, you're right. I mean if you look at Page 20, it's a helpful place to look, what I'm sure you're looking at in terms of the components of our carry for the quarter. And clearly, there was a strong contribution from U.S.-performing credit, which does include the credit opportunity Fund I where we do have position in Lyondell, which as we said, we had to ask some realizations from the quarter. I think that's part of that. And then clearly also, a strong contribution from a nonperforming loan fund where we have been having some realizations on portfolio holdings from EPF I.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Both Josh and Leon have been in the press in the recent past about talking about the great market environment to harvest gains. And you've definitely executed on that. As you look at the intersection of realizing gains and waiting for investments to season, kind of where do we stand there? And assuming that market conditions stay the same, it would seem like you're -- the pace of realizations can kind of continue at a good pace for some time. But at what point do you foresee the pace of realizations starting to slow?

Marc Adam Spilker
Former Senior Advisor

Well, I mean, it's really hard to predict. I mean, if you just go back and look at the last 8 or 10 quarters of realizations, I mean it has bounced around. And so we're really subject to what -- how mature is a position and what is the market at any given time. The frame that we've tried to give to people just to think about it, and again, we don't know where it will go in the future. But just a framework, there was around $24 billion of fair value on the ground. And you can make your own assumption as to what will happen to the fair value over the coming period. And then you can look at all the different quarters in terms of how much have we realized and make a guesstimate of how much realizations were left. And you can come up with numbers of 1 to 2 years. You can come up with numbers of 3 to 4, 5 years. And so it's very hard to predict. We're going to realize things when it makes sense for each investment, and that's how we think about it. We evaluate each one on its own.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. And then maybe to follow-up on Athene. What are the approvals that are still required for the deal to close? And as you think about the risks, which feel like they've really diminished, where do the -- where are the risks for the transaction closing at this point? And I guess, how do you feel about them?

Marc Adam Spilker
Former Senior Advisor

Well, any kind of transaction like this is always subject to normal customary closing issues. So having done many deals, it seems like everything's in order, but you never know. And really, it's -- from a regulatory point of view, it's Iowa and New York. And as we've said many times, we have a very strong relationship with both our regulators and have worked very closely with them and have said and we said this earlier on the call that we continue to believe that somewhere towards the end of the third quarter or beginning of the fourth quarter that we'll work our way towards closing the transaction.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Just a piggyback on that last question. In a scenario, say, where you don't get approval from one of your regulators, say that New York regulators, is there anything that you guys can do to get around that after the fact? My understanding is that only a small percentage of Aviva's assets are New York domiciles. So I don't know if you can move assets around or do something to kind of avoid that being an issue.

Marc Adam Spilker
Former Senior Advisor

It's not worth speculating. I think we're just going to work constructively to get to where we like to get to.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay, all right. That's fair enough. My follow-up question is going to be on the kind of the energy and natural resources area that you guys are looking to develop more capital. In the past, there's been some pretty big industry failures investing in this sector due to volatility of commodity prices. I'm just wondering, as you guys put more capital to work in that area, is there anything you can do to kind of mitigate those risks from really negatively affecting your returns?

Marc Adam Spilker
Former Senior Advisor

Well, I think we -- not at all. I think we have developed a differentiated investment approach, particularly in gas and oil in terms of our hedging capabilities, which we believe has been a differentiator in terms of our risk management and ultimately, our returns. And we're going to continue to do that. I think we're very mindful of the volatility of some of the industries that we go into. And that needs to be factored into what you do, what you buy and how you risk manage, and we're very mindful of that.

Gary M. Stein
Head of Corporate Communications

Yes, I would just add, natural resources is one of the 9 core industries we focus on. I think it plays extremely well to our distressed contrarian, value-oriented investment style where we can invest in different parts of the cycle. I think to Marc's point, being able to utilize hedging capabilities and so forth helps manage through those cycles. But again, we think we know the industry extremely well, and it really does play the capabilities here at Apollo throughout the entire firm.

Operator

Your next question comes from the line of David Chiaverini of BMO Capital Markets.

David John Chiaverini
BMO Capital Markets U.S.

I just wanted to follow up on Athene. Would Athene have to agree to higher-than-normal capital requirements to get the regulators' approval? And if so, would that impact the economics of future Athene deals?

Marc Adam Spilker
Former Senior Advisor

I honestly, I can't really speak to that because I just -- I don't know -- this is a pending transaction so I just can't really speak to it.

David John Chiaverini
BMO Capital Markets U.S.

Sure, sure. Okay, well my follow-up is on the customized managed accounts and credit that you mentioned. How big are those accounts? And is there any way you can size the pipeline there?

Marc Adam Spilker
Former Senior Advisor

We've talked -- last year, we talked publicly about a bunch. Those were what we deemed significant, $500 million, $600 million, $1.6 billion, $3 billion. What -- where the focus has shifted through the dialogue with our LPs is on credit managed accounts across the credit platform, and those are the dialogues that we've been in have been anywhere from low hundreds and higher. And so it really depends upon the appetite of the LP and the sophistication. It is really hard to handicap the pipeline. The dialogue takes a long time. The LPs themselves have to believe that this is significant value add for them. And so you really don't know. And we have to spend our time figuring out where are the LPs who we have the strongest relationships with and have the inclination to do it and then work constructively with them through a process. So I can't really say we have a sense of the pipeline, but the dialogue is pretty interesting right now.

Operator

Your next question comes from the line of Brennan Hawken of UBS.

David Eads
UBS Investment Bank, Research Division

This is David Eads filling in for Brennan. It seems like we've -- recently, we've had a pretty sharp increase in investor appreciation and appetite for leverage loan products, including kind of ETFs. Do you guys see this as a sustainable trend that could maybe drive the decline in funding cost for the industry over the next couple of years?

Marc Adam Spilker
Former Senior Advisor

I think it's a good question. I mean I'd rather say more broadly that the trend that we're most closely watching is on the institutional side. And so I think what you're talking about maybe is increasing appetite from both institutions and retail for credit and unconstrained credit. And so it's hard for me to speak about the dynamics in the ETF market. But what I can say is that with a 7.5% or 8% discount on liabilities, when you look at the credit spectrum, there's very interesting places to put capital to work. And that's been a big driver in terms of bringing pension plan and sovereign wealth fund money to the credit markets. And of course, the more you bring to the credit markets, ultimately, on the margin that has to affect funding costs on the other side. So the answer to your question is probably yes. But it's a little bit harder for me to comment on the dynamics around ETFs and retail.

David Eads
UBS Investment Bank, Research Division

Sure, that's helpful. And then have you guys seen any recent increase in kind of discussions around M&A and strategic M&A that could suggest that we might see a better environment for that in the back half of the year even kind of beyond the typical seasonal strength?

Marc Adam Spilker
Former Senior Advisor

It's hard to say. I think there is -- there seems to be -- activity has been -- M&A activity and corporate activity has been lower than what would have been suggested by where the markets are and what's happening in the economy, especially in the U.S. But I have not seen really anything recently to say that we've turned the corner or activity is any different than it's been. And if you look at the activity that we had in the second quarter that there was a healthy mix in terms of the realization activity. I think it would be reasonable to guess that corporate activity should pick up latter part of the year next year, but that's really just a guess.

Operator

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

M. Patrick Davitt
BofA Merrill Lynch, Research Division

So we've seen over the last few months a lot of the large European banks raised pretty significant amounts of equity capital. Have you seen that kind of trickle into them being more comfortable taking losses on assets in terms of properties you've been looking at or packages of assets you've been looking at that maybe they didn't want to sell before they had raised that capital?

Marc Adam Spilker
Former Senior Advisor

I would say more generally, we've seen a pickup in activity of assets being sold, and I wouldn't say multiples from where it was, but certainly the activity has increased. And I think there are a bunch of dynamics around that. It could be the operating environment. It could be equity capital. It could be the financing markets, or maybe it's some combination of all of them. And so we've definitely seen an increasing willingness to sell assets.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay. Great. My follow-up is on the distribution. In -- I believe, in 4Q, the distribution included a component from the balance sheet. You could have been generating a lot of cash again this year. Is that a determination you will make every fourth quarter, or is it something that could happen whenever you decide? Just curious what your thinking is around when and if you distribute cash off the balance sheet.

Martin Kelly
Chief Financial Officer

Sure. So it's not something that we do in a prescribed quarter. We look every quarter at what cash we, do we need to run the company. I can say that within the second quarter, [indiscernible] 2, there was no balance sheet component. And so that's -- and on a net basis, we received cash from selling, selling down GP6. So that amount we have determined to hold in view of commitments for Fund VIII and other new funds.

Operator

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

Neil Stratton

This is actually Neil filling in for Bill. A question regarding the 2 recent IPOs, Athlon and Sprouts, are you able to comment on where they were marked at the time of the IPO?

Gary M. Stein
Head of Corporate Communications

No, but we will be posting, probably later today, a page through our website in the private equity section that will list out some of our larger private equity investments and their capital at work. So not necessarily the same as costs, but capital at work as of the end of second quarter versus our current value. And that may give some additional information that may be helpful.

Operator

There are no further questions, and I will now like to turn the floor back over to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Thanks very much. We appreciate you all joining us today. And as I said earlier, if you have any questions following the call, please feel free to follow-up with either me or Patrick Parmentier. And we'll look forward to speaking to all of you again shortly.

Operator
Thank you for participating in Apollo Global Management's 2013 second quarter earnings conference call. You may now disconnect.