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Apollo Global Management, LLC NYSE:APO

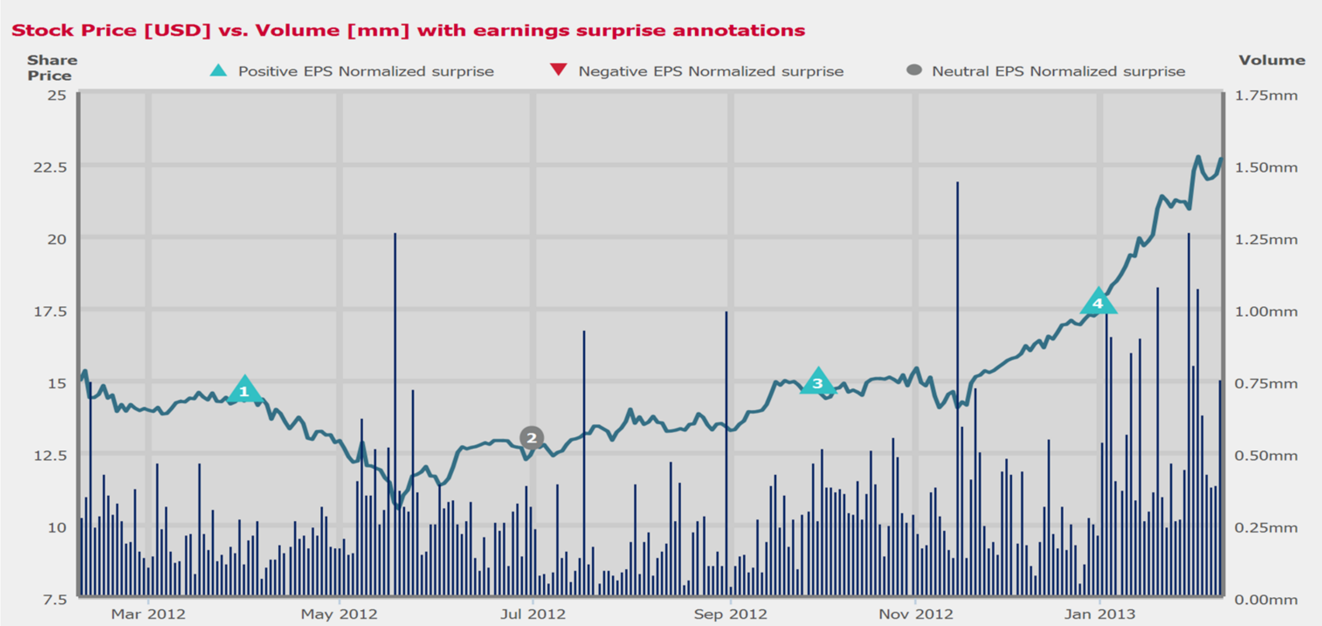
FQ1 2013 Earnings Call Transcripts

Monday, May 06, 2013 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.22	1.89	▲54.92	0.74	3.53	3.08
Revenue (mm)	923.74	1309.07	▲41.71	561.48	2823.35	2628.55

Currency: USD
Consensus as of May-06-2013 1:59 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	0.79	1.10	▲1 39.24 %
FQ2 2012	(0.11)	0.05	NM
FQ3 2012	0.74	0.98	▲2 32.43 %
FQ4 2012	1.05	1.69	▲3 60.95 %

Call Participants

EXECUTIVES

Gary M. Stein
Head of Corporate Communications

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Former Senior Advisor

Martin Kelly
Chief Financial Officer

Steve Fullerton

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Michael Roger Carrier
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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2013 First 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 $1.89 per share for the first quarter ended March 31, 2013, compared to $1.10 per share for the first quarter of 2012. We also declared a cash distribution of $0.57 per share for the first quarter of 2013, which is the second-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 first quarter's cash distribution.

For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $249 million for the first quarter ended March 31, 2013, compared to $98 million for the first 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 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 first quarter earnings press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. Please also refer to our most recent form 10-K that was filed with the SEC for additional information on non-GAAP measures and risk factors relating to our business.

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

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

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary, and good morning, everyone. Apollo's strong first quarter financial results reflect the positive themes that are playing out across our business and demonstrate again the benefits of having an integrated investment platform and value-oriented investment style. Before I discuss this quarter's activities in more detail, there are a few highlights I'd like to draw your attention to.

We continue to monetize our funds' investment portfolios as windows of opportunity permit, resulting in significant realizations and cash distributions for our investors in our funds, as well as our shareholders. Over the last 4 quarters, we have generated $14 billion of realizations and paid out $2.26 of cash per share, including a cash distribution of $0.57 per share for the first quarter of 2013. There have been a significant number of realization events that have taken place subsequent to the first quarter, and Martin will give you more details on this.

Our private equity business has remained active, and the funds we manage have deployed $1.2 billion of capital in several opportunistic transactions. There continues to be a lot of activity at Athene, including the pending acquisition of Aviva USA. And during the first quarter, we raised $1.2 billion of new capital and further expanded our retail distribution channel within our credit and real estate segments through the launch of a new closed-end fund and additional capital raises for our commercial mortgage REIT and our residential mortgage REIT. These accomplishments, which cut across all of our business segments, stem from our disciplined, value-oriented, absolute return-driven investment approach where we seek active, attractive investment opportunities in different market environments.

Turning to our private equity business. Our portfolio company investments appreciated by 14% during the first quarter. This appreciation across all of our private equity funds resulted in nearly $1 billion of carried interest income for the first quarter of 2013, assisted in part by Fund VI completing its 80% catch-up. This favorable performance was driven by investments that were made at different times throughout the market cycle. Fund VI invested in Norwegian Cruise Lines and Realogy right before the financial crisis in 2007 and 2008, while Lyondell and Charter were acquired by our private equity and credit funds in 2009 and 2010. Each of these fund investments had a meaningful impact on Apollo's financial results for the first quarter of 2013. Our realization activity in the first quarter was primarily driven by the sale of additional shares of Lyondell and Charter Communications by our private equity funds. There was also a significant realization activity in the second quarter of 2013 based upon our funds' recently completed or announced transactions, including the strategic sales of Metals USA, SourceHOV and our funds' remaining shares in Charter, secondary share sales for Realogy and Berry Plastics, the sale of shares in EVERTEC's recent IPO and dividend recaps for CKE, Sprouts and Constellium.

In addition to the strong realization activity, we believe that the level of capital deployment during the first quarter also highlighted the power of our flexible investment model, where we can simultaneously make new investments while harvesting previous investments. In the current environment where average acquisition multiples remain very high, we continue to deploy capital at what we believe are attractive market multiples. Our private equity funds invested a total of $1.2 billion of capital during the first quarter of 2013, which was driven by the opportunistic buyout of AURUM, a luxury jewelry retailer in the United Kingdom, the acquisition of McGraw Hill Education through our corporate carb-out transaction and the follow-on investment in Talos Energy in connection with their acquisition of Energy Resource Technology.

While the broad credit markets have seen ongoing tightening, we continue to fund a number of idiosyncratic investment opportunities for our credit and real estate funds. During the first quarter, our funds put approximately $2 billion of combined capital to work, including $550 million across our nonperforming loan strategies in Europe, $260 million across our longevity and insurance-based investment strategies and over $840 million across our real estate debt and equity strategies. Owing to the strength of our integrated model, our deal activity also benefit from further integration of our European real estate team with our London-based credit team in evaluating and completing real estate investments.

We continue to scale our presence across the credit spectrum, and as an example, we are one of the largest managers of CLOs in the United States. Just a few weeks ago, we leveraged our scale and brand to price a EUR 325 million European CLO. This was the first European CLO we have priced and is also one of the first new-issue European CLOs to price since the financial crisis.

During the first quarter, our second closed-end fund, Apollo Tactical Income Fund, completed its IPO on the New York Stock Exchange and raised $280 million. We will continue to focus on scaling our closed-end fund business, which is highly synergistic with our existing credit platform and continues to build out our retail channel.

Turning briefly to real estate. We continue to grow this business by leveraging our integrated platform. While many parts of the real estate sector have gotten more expensive, we have been able to identify value-oriented investments across the capital structure. For example, in North America, we have deployed or committed approximately 60% of our available capital in a number of private equity real estate strategies. In Europe, over the past 15 months, we have invested or committed more than $500 million of equity capital to a mix of property types and locations, including London residential, office, data center properties and a portfolio of French logistic properties.

During the first quarter, we also deployed $250 million of new capital from a managed account that is investing in mezzanine loans for core commercial real estate properties in larger U.S. metropolitan markets. We also expect to deploy an additional $300 million of new capital in the second quarter towards a similar investment opportunity in Europe. Dialogues for these mandates are ongoing, and we generally remain optimistic that this is a portion of our real estate business that will continue to grow as we identify mezzanine lending opportunities.

Before I finish my remarks, I want to touch briefly on fund-raising. As I mentioned earlier, we raised $1.2 billion of new capital during the first quarter in our credit and real estate segments, including $280 million for the Apollo Tactical Income Fund; nearly $150 million for ARI, our commercial mortgage REIT; more than $170 million for AMTG, our residential mortgage REIT; and $250 million for our real estate managed account. In addition, there continues to be a lot of focus around fund-raising for Fund VIII, our next flagship private equity fund.

In summary, we're very pleased with our first quarter financial results and the positive momentum that we built. Our private equity business continues to execute well from a fund performance, realization and deployment standpoint, which should benefit our future fund-raising efforts. We also believe that we're uniquely positioned through our relationship with Athene and have an opportunity to continue to scale our credit and real estate businesses based upon solid track records we're establishing across our integrated investment platform.

Now I'll 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 the first quarter financial results, starting with our cash distribution. The $0.57 per share declared for the first 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 that stems from interest and dividend income earned by the funds we manage. The third component generally includes onetime realizations from the dispositions of equity and debt investments by our funds, as well as nonrecurring special dividends that our funds may receive from their portfolio company investments.

There was approximately 47 -- sorry, $0.43 per unit associated with the third component of our quarterly distribution, which was primarily driven by the net realized carry earned from our private equity and credit funds in connection with their sales of shares in Lyondell and Charter. Following up on Marc's comments about recent realization activity, based upon completed and settled transactions since the beginning of April, we have realized approximately $0.75 per share of net realized carry so far in the second quarter.

Turning now to our private equity funds. We generated nearly $1 billion of carried interest income during the first quarter led by the strong performance of Fund VI, which appreciated by approximately 17%; and Fund VII, which appreciated by approximately 12%. 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 3 IPOs that were recently completed. The funds we manage currently hold 88 million shares of Lyondell, including 55 million shares in Fund VII, 19 million shares in COF I and 10 million shares in Fund VI. In March, Countrywide plc completed its IPO, and there are 36 million shares held in Fund VI. In April, EVERTEC completed its IPO, and there are 23 million shares held in Fund VII. And 2 weeks ago, Taminco completed its IPO, and there are 41 million shares held in Fund VII.

Regarding portfolio company performance, the aggregate revenues for the Fund VI and Fund VII portfolio of companies were down slightly by 1% for the rolling 12-month period ending March 31, 2013, compared to the 12-month period ending December 31, 2012, while EBITDA performance was up by approximately 2% over the same rolling period comparison. Looking at the year-over-year comparison, aggregate revenues were down by an estimated 4% for the 12-month period ending March 31, 2013, compared to the 12-month period ending March 31, 2012, while EBITDA was up by an estimated 3% over the same year-over-year comparison.

Moving on, there are a few items I'd like to briefly highlight with respect to our Management Business results. For the first quarter of 2013, Apollo's Management Business earned $66 million of ENI, which was slightly above the $64 million of ENI we earned in the fourth quarter of 2012. Our management fee revenues were up slightly over this period after adjusting for the $15 million onetime catch-up of management fees that we discussed last quarter. Advisory and transaction fees were up $10 million or 26%, which included approximately $20 million in advisory fee revenues from Athene in the first quarter.

Turning to expenses. There was a drop in non-compensation expenses that was primarily driven by lower professional fees. Placement fees of $9 million in the first quarter were primarily related to the launch of our second closed-end fund, as well as remaining placement fees for EPF II. Compensation expense was largely flat quarter-over-quarter, and there was approximately $12 million of incentive pool compensation accrued in the Incentive Business for the first quarter of 2013 compared to $16 million for the fourth quarter of 2012.

Incentive Business revenues in the first quarter included $1.1 billion of total carry and incentive fee revenues compared to $962 million for the fourth quarter of last year. Fund VI was the largest contributor of total carry with $644 million earned in the first quarter. This includes $339 million of incremental carry based on the remaining 80% catch-up provision. The fair market value of Fund VI at March 31, 2013, was approximately $961 million above the catch-up range.

Finally, as Marc alluded to earlier on the call, I would like to provide some additional information on Athene. As of March 31, 2013, there was $16.2 billion of AUM related to the Athene life reinsurance platform. Approximately $6.5 billion of this amount is currently being managed directly by Apollo across our funds. We continue to provide asset allocation and related portfolio management services across the entire $16.2 billion. As a reminder, we derive fees for our services in 3 principal forms: asset management fees across all of Athene's assets, the revenues for which are reported in our credit segment; management fees for those assets directly managed by Apollo funds, the revenues for which are reported in their respective segments that the underlying funds relate to; and advisory fees that Apollo earns from Athene, the revenues for which are reported in our private equity segment and for which we now receive as equity interests in Athene in lieu of cash. As the manager of both AP Alternative Assets and another strategic account that is invested in Athene, Apollo also has the ability to earn carry interest income, which is ultimately based on the underlying value of Athene and is also favorable in equity interest.
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 Howard Chen with Crédit Suisse.

Howard Chen
Crédit Suisse AG, Research Division

Martin, maybe just to pick up where you last left it on Athene with respect to the pending Aviva acquisition. Just curious, can you provide any more thoughts on potential timing of that closing? Pro forma, how much you expect to directly manage? And then also just a cleanup item, can you tell us like what your equity interest that you've generated in Athene this quarter was?

Martin Kelly
Chief Financial Officer

Sure, Howard. The timing is uncertain, but we currently expect it will be towards the end of the third quarter. That may be -- that may change thereabouts, but that's the approximate timing that we anticipate right now. We can't really provide forward-looking guidance on your second question at this time. But I can answer the question by saying that Aviva has approximately $56 billion of assets. Approximately $10 billion of that has been sold through the transaction last week that was announced with Global Atlantic. And so somewhere in the order of $35 billion to $45 billion of incremental AUM would come on and be subject to the overall management fee. And then in terms of how much of that then is directly managed by our funds and for which we derive a sub-advisory fee, we can't determine that at this point. And then to your third question, the value of the equity interest equals the amount of the fees that we recorded for the quarter, so it's about $20 million.

Howard Chen
Crédit Suisse AG, Research Division

Okay, great. And then just to follow up, separate topic, Marc, just maybe a brief update on Europe. Despite having a lot of boots on the ground, you have always been more measured with respect to that opportunity in the region. Now that financial institutions, the broader environment appears to have stabilized a bit, was wondering if you could just give us a broad update on Europe.

Marc Adam Spilker
Former Senior Advisor

Yes. Thanks, Howard. I would say that we're in the same place that we've been, which is from a macroeconomic standpoint, it doesn't seem like much has changed. The general senses there -- out there that not a lot has happened with respect to asset disposition. But I think we continue to show quarter-to-quarter that given our differentiated approach and our footprint and our team, that we continue to find opportunities that make sense to us. And so we're where we've been. I would say, on the margin, there's really 2 things that have changed. One that you have alluded to is that some feel slightly more opportunistic, optimistic. And so there are just areas that we've been investing in and have become a little bit tighter from a price point of view. But the flip side to that is since the financing markets have loosed up -- loosened up, there are opportunities for us to purchase things with financing that maybe we would not have been able to get 6 months or 1 year ago, and so the net of those 2 things has balanced itself out.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

So I want to start off here by talking a little bit about Fund VI. You guys clearly had some pretty significant write-ups in the quarter. You called out a few of them. I'm just curious, are -- what percent of the total write-ups do the 4 or 5 investments that you called out account for the majority? And I'm just trying to get a handle on how broad-based the appreciation was in the quarter. Was it really just isolated, just the few that you had talked about?

Martin Kelly
Chief Financial Officer

This is Martin, let me answer that. The appreciation in Fund VI was largely driven by public companies, and so I don't believe there was a substantial portion of that driven by privates. And the real kicker came in the catch-up fees that were derived 80-20. So if you look at the shares for the companies that were highlighted in the past that are outstanding and look at the price changes throughout the quarter and then -- so look at -- consider the turbo [ph] provision as part of that, that generated the outside gains.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay. All right, that's helpful. And then my follow-up relates to dividends. I'm just curious, it looks to me like you guys generated closer to $0.70 in cash earnings in the quarter, and the dividend's at $0.57. Any explanation on why you have the difference there? And could there possibly be a catch-up as we proceed later in the year?

Marc Adam Spilker
Former Senior Advisor

Well, just -- I would say, Martin referenced in his comments the size of the cash realizations that are already in the door for transactions that happened post-Q1. And so those -- most of those or all of those are transactions that were publicly announced. So that's probably math that you could do on your own, and that was the $0.75 number that Martin gave.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

So 2 questions on Athene. First, how much are insurance regulators digging into the investments or the investment policy of Athene? And I guess, is there any risk that regulators might ask Athene to migrate away from its use of alt credit or even Apollo, as a manager, as a condition from approving Aviva? Like I'm just trying to see if this type of thing is on the table, or if you just can say, "Hey, that kind of thing is, no, regulators would never ask something like that?" So...

Marc Adam Spilker
Former Senior Advisor

Well, maybe I can respond by just giving you a couple -- some background and some general comments about Athene and maybe that will help answer the question. The first piece is responding to some articles. And just to clarify that Athene is not an investment within a private equity fund. And so Athene has been primarily funded by a permanent capital vehicle. Athene is very well-capitalized, and it's very well-positioned to take advantage of growth. It's led by a very, very experienced management team who's focused on creating safe, consistent long-term returns. And that Athene maintains reserves in accordance with the regulatory requirements and has a very strong risk-based capital position. The other thing to note about Athene, and as we've said before, that most of this is public information. But if you look at the portfolio that has been posted on the website, that greater than 90% of the assets are AIC 1, 2 or 3, and 6% of the assets are in alternatives. And so through all of this acquisition of both companies and blocks, the thing to realize is that Athene is regulated in the same exact way that the higher owners of the companies or the assets are regulated. So there's not a new regulatory regime being put in place because the assets have transferred. And I think that, that's a really important point.

Kenneth Brooks Worthington

JP Morgan Chase & Co, Research Division

And maybe just one other thing on Athene. For the rating agencies, do they distinguish -- one, do they care? Maybe the focus for the rating agencies when they invest and so on is really the capitalization of the company. But do they look at alt credit as being different than traditional credit? And if so, do they view alt credit as being less risky or more risky? Because I think you can kind of take either side of that, but I have no idea how the regulators might view it.

Marc Adam Spilker
Former Senior Advisor

Well, keep in mind, it's the regulators, not the rating agencies. The regulators...

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

I'm sorry, I meant the -- I said regulators, I meant the rating agencies.

Marc Adam Spilker
Former Senior Advisor

Yes, I just don't know how they look at it. But I would say in the NAIC world, there's a very clear set of guidelines that everyone in the industry understands on which assets will fit into which category.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Just on the exit environment, you mentioned the second quarter thus far, and we've definitely seen a shift, at least for you guys, from not only secondaries, but also on the IPO front in the strategic sales, dividend recaps. Just want to get your sense of the outlook, when you look across your portfolio of companies, have you seen more of a shift so we're likely to see more of the same going forward? Or were they specific companies that there were good opportunities out there?

Marc Adam Spilker
Former Senior Advisor

You mean in terms of decisions, which companies to -- which situations to monetize or not?

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Yes. I mean, if we look over the past 9 months, it seems like there was more of a focus, and not just for you guys, but for the whole industry, on the secondaries. Now it seems like, obviously, the market environment is helping. But for you guys, specifically, you're seeing a pickup on the IPO front. You had the strategic sale. It seems like now, you're kind of going on across all avenues in terms of exiting, and just wanted to see if -- getting your sense from our conversion if there's more to come.

Marc Adam Spilker
Former Senior Advisor

Yes, I understand the question. I would just say every situation, we evaluate on its own merits. And I just think it shows the strength of the organization to not only pivot between investing and monetizing, but within monetization, pivot between these different methods. And so we look at each investment on its own merit and make the decision that we think is the best, especially related to where the capital markets are at that particular time.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. I just had a follow-up...

Marc Adam Spilker
Former Senior Advisor

So we don't really follow the preferred method, but we just try to be the most opportunistic to create the most value.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, that makes sense. And then just as a follow-up. You guys have mentioned over time, you're trying to increase the float, just wanted to get your updated thoughts on that. Obviously, the whole industry still has limited float, and that's one of the dip turns for investors. I just want to get a sense on what you guys are thinking in terms of ultimately what the level will be a few years down the road.

Marc Adam Spilker
Former Senior Advisor

We've talked about it many times. I think we all would like to figure out the most sensible way to increase the float over time. You could look at where AGM is versus the industry versus much more mature industries. And to say that I think we all expect over time the float to migrate up is something that we're going to just going to continue to work on.

Operator

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

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

Marc, I was just wondering if you could just help with a little more color around the fund-raising environment. Obviously, you guys have been returning a lot of capital to LPs and got some good private equity numbers to be out there with. I mean, are you seeing a change in the way the LPE community is thinking about allocating toward you guys? And I know on your latest fund, maybe there's not too much you can comment on, but any color on sort of the LPE fund-raising environment will be helpful.

Marc Adam Spilker
Former Senior Advisor

Yes, I would say in private equity, it's exactly as you would imagine. And obviously, none of the activity that we're undertaking now is showing up in our numbers until we get to a close. On the credit side, it's moved a little bit. On the one hand, with where the credit markets are, there are some who would be coming more cautious. On the other hand, we're still in a very low-rate world. And to some extent, there are LPEs who are looking at a bunch of investments. Particularly, I talked about certain parts of the mezz lending market in real estate where people, if anything, are being slightly more aggressive over wanting to put capital to work. So it's changed a little bit in credit, but I would just say on the margin, and I haven't seen a big shift in the way LPEs are thinking about the private equity world.

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

Okay. And then there's been a lot of discussion around high net worth and tapping into new channels of distribution with raw alternative product. I mean, do you have any sort of new headway that you're making in terms of maybe it's with some of your closed-end vehicles or platforms that you're getting on? Any color in terms of how you're progressing on sort of the convergence between the retail alternative product on the credit side?

Marc Adam Spilker
Former Senior Advisor

Yes. I would say for us, obviously, it's a big part of our strategy, but we're chipping away at it. Because when we describe the way we generate returns, we always talk a lot about nuance, idiosyncratic, things that are complex, things that tend to be less liquid. And so the challenge for us in the retail space is delivering our best products into a space that has tended to prefer things that are highly liquid. And the most stretched part of the market right now are things that are highly liquid. So we're just being very mindful of, we want to really protect our brand. And so we're going to be very opportunistic in terms of launching funds that we think are sort of appropriate for the long term.

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

Okay. And then, Martin, maybe I missed this in your comment, but what's AGM's stake -- balance sheet stake in Athene?

Martin Kelly
Chief Financial Officer

It's the same as the fees that were derived during the first quarter that we mentioned, so it's $20 million.

Gary M. Stein
Head of Corporate Communications

And I would just clarify that, that $20 million, again, it's a balance sheet stake. And so back to the question about ENI down to a distributable number, I would just point out that, that is noncash and going up on our balance sheet.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer.

Christoph M. Kotowski
Oppenheimer & Co. Inc., Research Division

So I see that in the press release, you disclosed there's a $111 million of carried interest receivable against AAA, which I assume is mainly the investment in Athene. And so I'm wondering -- it's my understanding that there's going to be a bargain purchase gain, a very sizable one, when you've closed the Aviva transaction. So is that correct? And then secondly, would the carry against that bargain purchase gain just be 20%?

Martin Kelly
Chief Financial Officer

So the first part of the question, the AGM has a promote arrangement with AAA, where there's carry in AAA the way it would for many other private equity funds. And so that's the large part of the $111 million. And in terms of the accounting, I think that's something we're still working through, and we'll have a view on that closer to the transaction closing.

Christoph M. Kotowski
Oppenheimer & Co. Inc., Research Division

Okay. And then secondly, just given that it's, as you said, a permanent capital vehicle, when is carry crystallized for Apollo management? Would it only be on the sale of Athene ultimately or...

Marc Adam Spilker
Former Senior Advisor

What we've said before, the current plan for AAA is eventually to execute an IPO of Athene. And so our best guess is that upon that IPO transaction that the carry will be crystallized.

Operator

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

David John Chiaverini
BMO Capital Markets U.S.

Could you comment on the acquisition environment in the U.S. and Apollo's appetite for deals, given where multiples and valuations are? In other words, do you see anything that would cause you to alter the pace of capital deployment?

Marc Adam Spilker
Former Senior Advisor

I'll take that in 2 parts. One, the more general, which is we just -- if you just look back over the history of the company, that our platform is very flexible. And so we continue to be optimistic that we could find, with our historic underwritten returns, opportunities in this market versus other parts of the cycle. And so our answer has been quarter-to-quarter, and I think we've proved that out in both our deployment and ultimately, our returns, that our platform is something that works. I would say that more broadly in the industry, it would seem that the conditions for more M&A activity have been there. And so the M&A deal activity has been lower than I think many of us would have guessed. We continue to have interesting and strategic dialogue. We had some strategic transactions in the recent history and something that we're going to continue to focus on. But I can't really predict which ones of these things will go through. But it has stood to reason, although it has not come to pass, that deal activity should pick up at some point, but we're just going to wait and see.

David John Chiaverini
BMO Capital Markets U.S.

Okay. And as it relates to Athene, can you comment on a potential pipeline of additional deals? In other words, to try and replicate another Aviva deal?

Marc Adam Spilker
Former Senior Advisor

Can't really comment on a pipeline. We could just say that we have an experienced management team in an entity that will be well-capitalized and believe that there's the conditions for that company to grow subject to opportunities. The team is, as you can imagine, very focused on all of the integration work, all the investment activity and very focused on working through the regulatory process to get to the closing of the Aviva transaction.

Operator

Your next question comes from the line of Bill Katz with Citi.

Steve Fullerton

This is Steve Fullerton filling in for Bill. My first question is just around fund-raising, and there's been some speculation around Fund VIII could be nearing a $5 billion closing. How would that match up to your expectations from prior funds? And also, how important these things scale in fund-raising recently?

Marc Adam Spilker
Former Senior Advisor

Can you clarify the second part of the question?

Steve Fullerton

How important do you think scale is becoming within private equity fund-raising?

Marc Adam Spilker
Former Senior Advisor

So in the first part, I can't say much more. I don't really want to comment on speculation in the industry. So we're getting closer to where we think we can have a first close. So once we do that, we'll be able to obviously give more details. We think scale is becoming really fundamental and important in fund-raising. We're increasingly -- and we've been saying this for quite some period of time, that we're seeing a bifurcation between the scaled, branded, better-returned players and not. And we're in that category where because of our historic track record, because of the trust that we've created with our LPEs, because of the fact that many LPEs want to do more things across the platform and consolidating their assets with fewer people, it's actually become fundamental in fund-raising, and it's a big advantage that we think that we have relative to the entirety of the industry. And obviously, there are many in the same category as us. We're not the only, but that increasingly smaller group of top-tier players, we think are starting to get a disproportionate share of the assets.

Steve Fullerton

Okay, great. And then you talked about the opportunities to put -- to deploy capital in Europe for credit. Can you just kind of walk around the globe, the opportunities you've seen in other parts of the world?

Marc Adam Spilker
Former Senior Advisor

I would say that we continue to really focus on the European opportunity, and we continue to really focus on the natural resource opportunity, and you could see in the deployment. And then obviously, in our private equity, more broad opportunity. And you could just see that's what we've been saying for 5, 6, 7, 8 quarters. And if you look at where the capital is getting deployed, it's to those 3 places. So that's where we think the greatest opportunity where we have an edge in originating and creating transactions.

Operator

Your final question comes from the line of Robert Lee with KBW.

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

First question is on kind of the tax and regulatory front. I mean, aside from the perpetual noise on carried interest, is there anything that you're hearing about in current talks and negotiations or proposals that give you a pause? And maybe specifically, are you hearing anything about more discussion around prospective changes to partnership taxation, which I know has been brought up in the past? Or just trying to get a feel of anything that you can -- is worth calling out that you're seeing or hearing about on that front.

Marc Adam Spilker
Former Senior Advisor

Yes, I wish I can give you some insights, I just can't. We're all -- I think we're all listening and watching the same speculation. So unfortunately, I don't have more to add on that.

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

Okay. And maybe going back to the fund-raising, and I apologize, I know you probably covered this. But a lot of things going on in different places, but maybe trying to narrow it down, in addition to the fund-raising for Fund VIII, could you maybe just highlight for us what's from the key fund-raising activities or specifically in, I guess, what I would call more PE style limited life kind of products? I don't know if there's more energy, still raising for energy or whatnot, just trying to get a better handle on that.

Marc Adam Spilker
Former Senior Advisor

Well, if you look back to 2012, there was a big focus on EPF II and our natural resources fund, and so those were in that category. So we've just completed those fundraisers. There's a lot of focus now, obviously broadly, on in private equity, on Fund VIII. But I would say, away from that, where the dialogue is very constructive is all around -- really all around broad credit. And as I said, some are being more cautious, some are being a little bit more aggressive. But we think over the long term, one of the big growth opportunities for us as a firm is in the credit space, and that's obviously going to be subject to opportunities in the market. And so in a market like this where spreads have compressed and yields come down, I think it would stand to reason to see less private equity style funds in credit and more management fee funds in credit. But eventually, when the credit cycle turns or the rate cycle turns, then I think that ratio can flip. And we think that whether we're one side of the cycle or the other side of the cycle, that we will have interesting products and investment opportunities for our LP.

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

Okay. And maybe just a quick follow-up to that. I know last quarter you had a good quarter for capital raising and closed-end funds, a couple of -- as you mentioned, a couple of your REITs had some raise-ups. Is there anything currently that is on file, that you could talk about that -- another close-end fund or anything else that's worth calling out?

Marc Adam Spilker
Former Senior Advisor

I would just say more broadly, we would anticipate doing more. The timing of those things is a little bit uncertain.

Operator

That was our final question. And now, I'd like to turn the floor back over to Mr. Gary Stein for any closing comments.

Gary M. Stein
Head of Corporate Communications

Great. Thanks very much. Thanks, everyone, for joining us again this morning. If you have any follow-up questions, please feel free to give either Patrick or myself a call.

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