S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

FQ3 2011 Earnings Call Transcripts

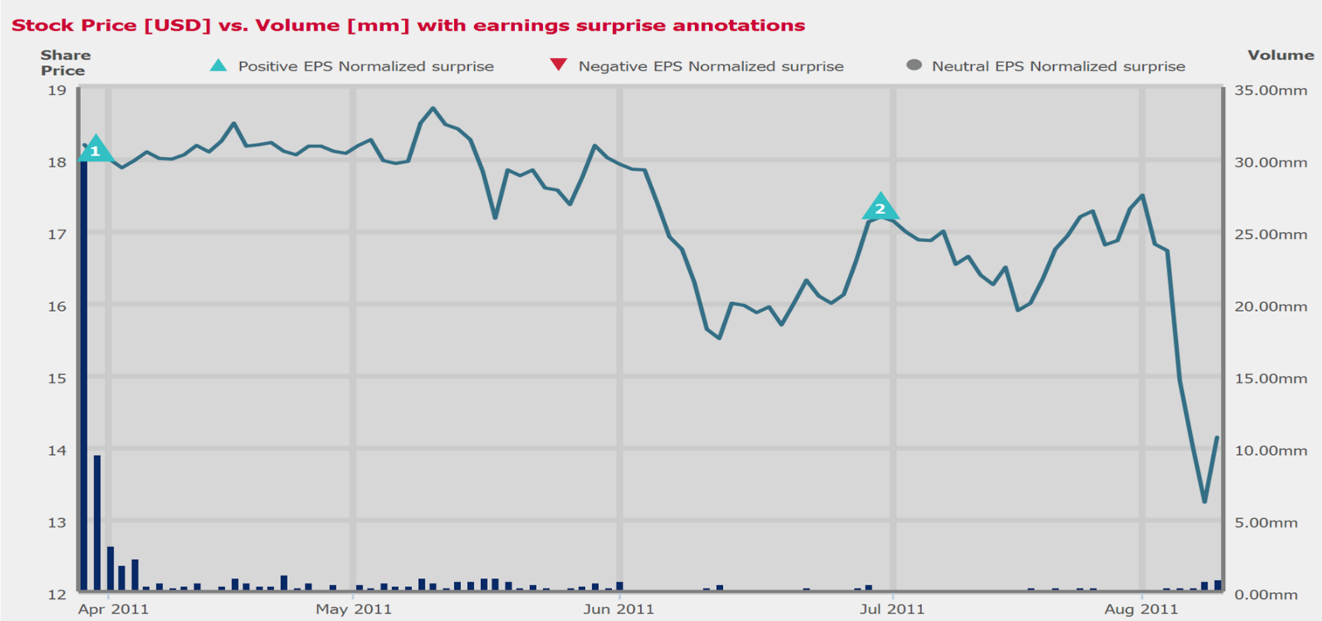
Thursday, November 03, 2011 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.67)	(1.46)	NM	0.57	1.09	2.41
Revenue (mm)	-	-	-	530.91	1101.81	2045.58

Currency: USD

Consensus as of Nov-03-2011 12:13 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.78	1.10	41.03 %
FQ2 2011	0.37	1.15	210.81 %

Call Participants

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's Third Quarter 2011 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 Communication.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome everyone to Apollo Global Management's Third Quarter 2011 Earnings Conference Call. Joining me from Apollo on today's call are Marc Spilker, President; and Gene Donnelly, Chief Financial Officer.

Earlier this morning, we reported a total economic net loss of $1.1 billion for the third quarter ended September 30, 2011, which was largely driven by lower unrealized mark-to-market valuations within Apollo's private equity and capital market segments. Total assets under management, or AUM, was $65 billion, and fee-generating AUM was $50 billion as of the end of September. Apollo also declared a cash distribution of $0.20 per share for the third quarter of 2011, which comprises a $0.07 regular distribution and an additional $0.13 per share quarterly distribution that was primarily driven by the realized carried interest income tied to the interest and dividend income earned by our funds.

I'd like to remind everyone that today's call may include forward-looking statements representing management's beliefs on future events, which can be uncertain in nature and outside of our control. Actual results and financial conditions may differ, possibly materially, from the anticipated results and financial position indicated in any such forward-looking statements, and we do not undertake any obligation to update forward-looking statements.

We'll also be discussing certain non-GAAP measures on this call, such as economic net income, or ENI, which is reconciled to GAAP net loss or income attributable to Class A shareholders in our press release, a copy of which is available in the Investor Relations section of our website at www.agm.com. Please refer to our most recent amended registration statement that was filed with the SEC for cautionary factors surrounding forward-looking statements, additional information on non-GAAP measures and risk factors relating to our business.

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

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

Marc Adam Spilker
Former Senior Advisor

Thanks, Gary, and welcome to today's call to review our third quarter results. As you know, much has happened in the global financial markets, not only in the third quarter but in October as well. During the third quarter, we watched sovereign debt issues play out in the global economy, including a prolonged U.S. debt-ceiling debate in July and the downgrade of U.S. debt rating in August 5 and heightening fears in Europe. As a result, the third quarter of 2011 yielded the worst quarterly performance for the S&P 500 since the depths of the financial crisis. We continue to watch markets closely, and they clearly remain in a volatile state.

To put things in perspective, in the equity markets, the S&P declined 14% in the third quarter, then rose 11% in October. Similarly, in the credit markets, the S&P/LSTA Leverage Loan Index fell 5% during the third quarter, and in October, this same index rose 3%.

We have seen even greater volatility in some of the public securities held by our private equity funds. For example, LyondellBasell declined by 37% in the third quarter and then rose by 35% in the month of October alone. Metals USA declined by 40% in the third quarter and then rose by 22% in October. With this kind of volatility in markets, on any given day, week, month or year, the unrealized mark-to-market values of the debt and equity positions we hold will fluctuate, often quite dramatically.

As Gary mentioned, our economic net loss of $1.1 billion was largely driven by lower unrealized valuations. The underlying performance of our portfolio of companies is solid, based on current revenue and EBITDA metrics that we'll discuss shortly, and the unrealized value of our portfolios appreciated in October with the rest of the market.

There are 2 sides to every coin. And while the volatility of the markets created a large unrealized loss in the quarter, we're capitalizing on very interesting investment opportunities to deploy our significant dry powder, especially in Europe where we're actively investing. We see significant benefits from our integrated platform in times of market dislocation and volatility. We believe we'll able to move quickly to capture opportunities.

Apollo also continues to generate positive cash earnings despite a volatile market environment. Both our Management and Incentive Businesses had positive cash earnings, leading to this quarter's $0.20 distribution. The cash earnings generated by our Management Business sustained our investment platform, and combined with cash earnings from realized carry-on recurring interest and dividend income for our Incentive Business, Apollo continues to deliver shareholder value even during volatile market environments.

There's an inherent advantage that longer-term capital provides to a business model such as ours. Although monetizations of larger investments may be delayed, alternative investment managers like Apollo are not under pressure to sell portfolio holdings. Our long-dated capital, over 90% of the funds we manage have a contractual life of 7 years longer than -- at inception, allow us to deploy capital during times of dislocation while remaining patient on selling any of our investments until the environment is conducive for doing so. Our 21-year track record as the best-in-class contrarian value-oriented investor evidences our successful adherence to this approach.

Now let me focus more closely on our Incentive Business results. As you probably know, the volatility of our financial results is contained primarily on our Incentive Business, which includes Apollo's share of the profits it generates in its funds through investments, carry and incentive income. Fluctuations and unrealized mark-to-market investment values run to our income statement each quarter, providing a snapshot of where our funds stand at a particular point in time, often based upon market sentiment at that time.

The $1.2 billion loss from our Incentive Business during the third quarter of 2011 was driven by a reversal of previously recorded carry income, primarily from our private equity segment. The combined fair value of our private equity investments was $19.1 billion at the end of the quarter which declined by 22% since the end of the second quarter after adjusting for purchases and sales. Despite these lower unrealized valuations, the combined value of these investments are still well above the original cost.

Notwithstanding what we're all reading about in the papers and watching in the markets, looking at the third quarter this year versus last year, we estimate that the aggregate revenues of our Fund VI and VII portfolio companies increased 14% while EBITDA grew 17%. On a sequential basis, comparing third quarter to second quarter of 2011, we estimate that revenues for our funds portfolio of companies were down very slightly while EBITDA grew modestly, reflecting the continued positive impact of capital structure optimization and cost-savings programs that have been implemented.

As you know, we do not typically comment on inter-quarter results. However, in light of the extreme volatility we have experienced during the third quarter and in October, I wanted to report that as of October 31, we estimate that our portfolios have recovered approximately 60% of the unrealized decline in fair market value, and we estimate that our Incentive Business has recovered approximately 50% of the economic net loss that took place in the third quarter due to the market upswing witnessed in the latter part of October. Later in the call, we will provide details on this estimate.

One final note here. As I said earlier, marks will go up and down, sometimes in an extreme manner like we just saw in the third quarter and in October, and we don't necessarily believe that these marks represent the full value we expect to generate from these investments. We are not in the business of selling our portfolio holdings on a daily basis, and we believe the true test of our performance comes when we fully realize and exit our investments.

I'd like to briefly run through our businesses, starting with private equity. Although capital deployment will slow down in many businesses during the periods of significant market gyrations, we have -- we continue to find differentiated and proprietary opportunities to deploy our private equity capital around the world while staying true to our core strategy as a value-oriented investor.

During the third quarter of 2011, our private equity business deployed $757 million of capital in both equity and debt investments, including new investments in 2 natural resource companies, Welspun and Athlon. Welspun, an India-based company, is one of the world's leading pipeline manufacturers while Athlon is a portfolio company of Apollo's that has been established to service a continuation of our West Texas proven reserved acquisition strategy.

We've also ramped up our activities buying the debt of good companies with challenged balance sheets and believe this will be fertile ground in the near term. As you recall, we deployed significant capital during the global financial crisis in distressed opportunities, and our private equity team is oriented towards the credit markets in 9 core industries that are well known to Apollo.

Turning to realizations. During the third quarter, we announced the sale of Connections Education investments from Fund IV. And Lyondell recently announced its intent to pay a special dividend of $4.50 per share, which is subject to the successful completion of its debt tender and amendment. In addition, yesterday, Noranda Aluminum announced the initiation of a regular quarterly cash dividend and also declared a supplemental cash dividend. Gene will provide additional details on these realization events.

Clearly, with the market volatility, our IPO pipeline and realization timeline could be extended, but we will continue to look to maximize long-term value for our limited partners while driving cash distributions for our shareholders. Corporations globally retain unprecedented levels of cash on their balance sheets so we're not as dependent on the public markets for exits and realizations.

Moving on to capital markets, AUM was $22.4 billion as of September 30. This amount does not yet include the recently closed acquisition of Gulf Stream Asset Management, which occurred in early October. Gulfstream is a CLO manager with 10 CLOs and over $3 billion of AUM, and the acquisition leverages Apollo's existing senior loan platform and further strengthens our position as a leading global manager of loans and provides us with access to large group of institutional investors that are new to Apollo's integrated platform.

Our capital market segment had an economic loss for the third quarter of 2011, which was driven by unrealized carry losses. Similar to our discussion around private equity, the recovery of the fixed income markets during October had a positive impact on our capital market's business during the first month of the quarter.

As we have been highlighting, we continue to identify actionable opportunities to buy a diverse array of assets from European banks. Our nonperforming loan, EPF, and our European mezz fund, AIE II, together deployed over $300 million in European credit-related investments during the third quarter. We continue to see many investment opportunities in European nonperforming loan space, and we believe that our successful track record, coupled with our servicing infrastructure and positioning of the strategic solution provider and partner, leave us well suited for continued growth in this marketplace.

I'd like to provide an update on some of our fundraising initiatives. Last quarter, I mentioned our ongoing dialogue with -- and continued momentum we are gaining with some of our largest institutional investors to establish additional strategic account. I am pleased to note that during the third quarter, we closed on a $500 million strategic account with a large sovereign wealth fund to access Apollo's European platform. In addition, we have a number of dialogues with others underway, with leading global pension and sovereign wealth funds regarding a variety of strategic account and hope to provide you with further updates as we continue to make progress in this important area.

The recent market volatility has propelled these dialogues forward with more momentum, as our investors clearly see the need for a solution provider such as Apollo. Historical asset allocation models are being revamped around the world, and we believe Apollo will capture market share as investors seek new ways to flexibly and dynamically deploy capital to meet their return objectives in this low interest rate and volatile market environment.

Moving beyond strategic accounts. In the third quarter, we had a $300 million first closing on our natural resources fund, and we successfully completed the initial public offering of Apollo Residential Mortgage, which raised gross proceeds of $200 million.

In summary, we believe that our business model, which is predicated on the long-dated capital that we manage, allows us to endure periods of greater market volatility while still delivering on realizations for our shareholders. Markets go up and down, as will our reported quarterly unrealized results, but our underlying portfolio of companies are performing well. We're deploying capital where we feel are attractive investment opportunities, and we have momentum with our investor base and raising assets across our integrated global platform.

With that, I'd like to turn things over to Gene.

Eugene Donnelly
Senior Adviser

Thanks, Marc, and good morning, everybody. As Gary and Marc described, we had a significant ENI loss during the quarter, driven by the performance of our Incentive Business. As you may have already seen in our press release, we have provided significant transparency into the performance of our underlying funds. Our disclosures include the unrealized carried interest loss for each of the private equity funds, as well as for each fund strategy in our capital markets business. We have also disclosed the fair value of investments needed to cross -- I'm sorry, we have also disclosed the increase in the fair value of investments needed to cross the carry interest income threshold for Fund VI, COF II and SOMA.

Earlier, Marc described the significant volatility in the equity and credit markets, which have certainly been experienced at Apollo. Our Incentive Business generated an ENI loss of approximately $1.2 billion during the quarter. This ENI loss was triggered by an approximate $8 billion decline in the unrealized value of the investments in our underlying funds. This decline actually grew in the early part of October before reversing considerably by month end.

I'd like to emphasize a point that Marc made during his comments. Markets are inherently volatile, which can have a significant impact on the unrealized values in our Incentive Business, and we don't necessarily believe that these snapshot point-in-time values represent the full value we would expect to generate upon our eventual exit from these investments.

Given the significant market volatility, which has occurred over the past few months, we've estimated the impact of the movement in public marks on our portfolio as of October 31. This is an estimate that does not reflect the normal rigor of our valuation process. It simply reflects the change in public marks from September 30 to October 31 without changing the underlying valuation methodologies. By definition, this estimate does not include any impact for underlying investments not determined by reference to public marks.

We estimate, let me reiterate, estimate, that the investments in our underlying funds valued at September 30 with reference to the public marks recovered approximately 60% of the third quarter decline in the fair value -- in their fair value during the month of October. Said differently, based on public marks and using the same valuation methods employed at September 30 for our other investments, we estimate that the Incentive Business's ENI loss of approximately $1.2 billion in the third quarter has been approximately 50% recovered. The difference in the estimated recovery of value in the underlying investments I just described versus the estimated recovery in the Incentive Business ENI is attributable to the recovery value in Fund VI investments, which, in large part, went towards the preferred return.

It's also worth noting, once again, that the underlying portfolio companies of our private equity funds experienced year-on-year quarterly growth in revenues and EBITDA of 14% and 17%, respectively. We declared a 20% per share distribution for the quarter, including $0.13 per share from the performance of our Incentive Business. Further, the sale of Connections Education was completed this week, and both Lyondell and Noranda have announced their intention to pay special dividends during the fourth quarter as well. If realized, we expect these 3 transactions will result in a $127 million of realized carried interest income, net of profit share.

In summary, while our ENI has been volatile, our underlying portfolio companies are continuing to perform above their prior years and distributions are strong. At September 30, Fund VI is valued at approximately $1.6 billion below its preferred return level. As we look ahead, should Fund VI investments appreciate by approximately 18% from their September 30 values, this fund will begin earning an accelerated catch-up of carried interest income similar to what we experienced during the fourth quarter of last year.

Our Management Business generally performed as expected during the quarter, generating ENI of $22 million. Compared to the prior quarter, this represents a decline of $63 million. However, after adjusting for a $40 million gain related to insurance proceeds last year and an $8 million expense related to costs associated with the launch of Apollo Residential Mortgage, our newest permanent capital vehicle. And the impact of foreign currency exchange movements totaling an $11 million difference between the 2 periods, the period-over-period change is a decline of $4 million. This decline is largely the result of: incremental occupancy expenses, as we continue to build out our global platform; a decline in transaction fees, given the capital deployment levels in private equity; and a slight uptick in placement fees.

Let me briefly describe the decline in AUM for the 3 months ended September 30. First, we had unrealized investment losses of $8.3 billion, and we returned $671 million to our limited partners. We also experienced subscriptions of $2.3 billion, including $1.4 billion of AUM that was acquired by Athene, a portfolio company of one of our funds, during this quarter and all of this subscriptions are fee pay. Lastly, redemptions during the quarter totaled just $156 million.

Briefly looking at our balance sheet as of the end of September, we had $808 million of cash and our carried interest receivable declined to $635 million in connection with the unrealized carried loss, although we did also collect $64 million of carry during the third quarter, primarily due to realized carry income relating to the interest and dividend income generated by our funds.

Also on our balance sheet are Apollo's investments in its funds, which are currently valued at approximately $254 million. And year-to-date through September 30, these investments have generated $47 million of cash that came back to Apollo, and we reinvested $41 million back into our funds over that same period.

On the other side of our balance sheet, our profit-sharing liability is down considerably from $837 million at the end of June to $285 million at the end of September, also due to the unrealized losses previously discussed. We also have $739 million of debt, which is consistent with the previous quarter.

As Marc mentioned earlier, we completed the Gulfstream acquisition for total consideration of approximately $34 million, and we estimate that the acquisition of Gulfstream will be accretive to Apollo in 2012.

In closing, let me address our distributions. I'd like to remind everyone again as to how we think about the components of our quarterly distribution. In general, our distribution can be broken down into a number of income streams: management advisory and transaction fee profitability, interest income from our portfolio of debt investments, realization from the sale of portfolio holdings and dividends from our publicly held equity securities.

As we've mentioned, we declared a 20% per share distribution for the third quarter. Similar to prior quarters, this distribution comprises a regular $0.07 per share distribution that's primarily associated with our Management Business earnings and $0.13 per share from interest income and dividends from debt and equity investments held by certain of our funds.

Looking ahead to the fourth quarter. There is 1 actual and 2 potential realization events that were discussed that I'd like to highlight again. One of the private equity funds we manage, Fund IV, finalized the sale of a portfolio company Connections Education. The sale of Connections Education by Fund IV was consummated earlier this week and generated over $46 million of realized carried interest income, net of profit sharing, which will be recognized by Apollo during the quarter ended December 31. There is also a prospect of additional carried interest income from this transaction over the next 1 to 2 years following post-closing settlements.

Lyondell also recently announced its intention to declare a special dividend of $4.50 per share that's anticipated to be paid to our funds prior to the end of 2011, subject to the completion of a debt tender and amendment. If Lyondell is successful with its debt tender and amendment process and pays the intended dividend, based on our significant holdings, this represents an estimated potential gross dividend in excess of $700 million to certain of our funds and realized carried interest income of $76 million, net of profit share.

Lastly, just yesterday, Noranda Aluminum, a Fund VI portfolio company, initiated a regular quarterly cash dividend and also declared a supplemental cash dividend of $1 per share that will be received by Fund VI later this month. This dividend is expected to generate approximately $5 million of realized carried interest income, net of profit sharing, to Apollo.
With that, we'll open up the line for your questions. Operator?

Question and Answer

Operator

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

Howard Chen
Crédit Suisse AG, Research Division

You're putting out a lot in the market, as you noted, Marc, for deployment. It's pretty favorable. It looks like, relative to your overall level of commitment, that you might be getting a bit low on headroom here. So I'm just curious, how does that maybe adjust or shape your thinking on the timing and size of fund date?

Marc Adam Spilker
Former Senior Advisor

So fund date is off in the future. Just in terms of looking at the market, the firm has always been very, very disciplined about allocating capital where we see opportunities. We have significant dry powder. And as you could see, fundraising is moving forward. And so as opportunities come up, we'll just deploy dry powder and hope to raise new funds as many of our LP clients see what we see, which is opportunities for capital to market -- to work in this market.

Howard Chen
Crédit Suisse AG, Research Division

Okay. And then, Marc, on the revenue and EBITDA figures that you noted, it's very helpful and interesting. But maybe could you bifurcate the performance by industrial versus consumer? Are you still seeing the former a bit stronger than the latter?

Marc Adam Spilker
Former Senior Advisor

I would say, yes, the trend that we've been talking about the last bunch of quarters is in -- is pretty much intact, where industrial companies continue to outperform consumer companies. But I would say, relative to the sentiment, the consumer companies still seem to be doing better than what the sentiment would imply.

Howard Chen
Crédit Suisse AG, Research Division

Great. And then finally for us, just congratulations on the strategic account mandate. Clearly, something that you all had been kind of talking about. So obviously, it helps for more permanent capital vehicles. But can you just give a sense of how maybe fee rates in a mandate like that compare with what we're normally used to seeing?

Eugene Donnelly
Senior Adviser

Howard, I would say -- I'm going to give you the same answer I always give you on fees, which is that they're highly customized, and each one of these things is very, very different. And we believe, ultimately, very accretive to our LPs and accretive to Apollo, and it depends on the duration of it. It depends on the flexibility of it. And so as we said for large, long, locked-up capital, that in the end, that there would be discounts on fees, but it has to be differentiated and they're all customized.

Operator

The next question comes from the line of Roger Freeman of Barclays Capital.

Roger Anthony Freeman

Barclays PLC, Research Division

I guess just on the strategic accounts further. If you can comment on this one, or more generally, where the discussions are going. There's different flavors of these. It sounds like some, where the capital is -- you received all the capital at once. Maybe you've got discretion or just earmark specific strategies or its drawdown. Any comment on this one? But then more generally, what -- kind of where more of these are coming in terms of structure?

Marc Adam Spilker
Former Senior Advisor

As you know, we have a bunch in place, and again, they're all different shapes and sizes. The particular one in the quarter was very focused on the platform in Europe, and so that was specific to that. And as you -- I've been saying, quarter-to-quarter, that the dialogue continues to be strong in some of the dialogues around the global Apollo platform with lots of discretion, and then there are increasing dialogues about Europe with discretion limited to certain asset classes. And so what we're trying to do is match our strengths with the needs of our LPs. But again, the -- primarily the value is that as opportunities move around the world, LPs want us to access it, and that's the value of generally giving us discretion. But I would say in the last 3 to 6 months, there's obviously been an increasing focus on Europe for the obvious reasons.

Roger Anthony Freeman
Barclays PLC, Research Division

Right. And then you've been talking for a while about the pension fund opportunity and how these, really traditional asset allocation, as maybe being not tossed out the window, but redefined a bit in terms of what constitutes credit, and I assume that's a source here in the strategic accounts area. But I mean, with another year of not-so-great returns in the -- in liquid assets, do you think we'd get close -- we'll get to a sort of breaking point at some point where we really start to see these mandates come in, or is it a gradual shift in your view?

Marc Adam Spilker
Former Senior Advisor

I think it's a gradual shift, and I also think the number of institutions that will ultimately want to do very large strategic accounts is limited. And I don't know whether they're 10 or 20 or 30 or 40 accounts in the world. And so I do think that there are 2 themes for -- on the one hand, very large LPs, for all the obvious reasons, are looking to do these managed accounts. And then to your question, which is this issue of credit as an asset -- as part of the strategic asset allocation, and we have started to see that for sure. And that is something that is going to move very slowly, where pension plans are looking to allocate money to credit is moving slowly and a healthy dose of what's going in, I think, will go into some of these managed accounts will be credit.

Roger Anthony Freeman
Barclays PLC, Research Division

Okay. And just lastly, just kind of more conceptually, in terms of the -- your business structure and your segmenting of the Management Business and the Incentive Business. If we -- you made significant amount of this back in terms of the carry dollars coming back. But to the extent that there's real shortfall, mainly with realizations is where this would show up, that -- where -- you -- there could be comp pressure in the management fee business to cover comp expectations, that couldn’t be met because of underperformance in the Incentive Business?

Marc Adam Spilker
Former Senior Advisor

Look, I think it's a good question. And one of the things we've always said about the firm is that the tenure of our professional is -- people have been here for a really long time in good cycles and bad cycles. And while, of course, we all know everybody wants to make more, not less, I think the people that are managing the money understand that sometimes it takes a long time to make these realizations, and it's happened in the past. And so while this is something that we think about, I think that the incentives of our investment professionals are totally aligned with our LPs and our shareholders, and that the value that we have produced over the long period of the firm has been by being patient, which is a core discipline as a contrarian value-oriented investor. And so I think that we're in good shape there.

Operator

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

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

Great. Marc, maybe you can talk a little bit about the LP appetite for a more targeted product. We're hearing a bit more about LPs looking to -- instead of maybe putting money into bigger funds, looking at more targeted opportunities. Could you just kind of address that -- what that mean for the business, potentially from building out sort of the expense base? Are you built to sort of increase the number of products with the current cost structure you have?

Marc Adam Spilker
Former Senior Advisor

I think it's a good question. I'll just say that it's -- this is an evolution, not a revolution. It's just something that's happening over time. And Gene said many times that we've built the scalable infrastructure, and it is growing. And what we're trying to do in the first instance is invest in areas of our expertise. And so when you look at things like natural resources, leveraging off the existing capabilities, and I would call that a targeted asset class, when you look at ongoing opportunities in nonperforming loans in Europe, we've built the business and money starting to want to go into that asset class. And maybe that's a place where it's accelerating a little bit, but that's a business that has been built out. And even places like India, we're leveraging existing private equity infrastructure. We're trying to be very careful to not only live within our core investment expertise, but leverage infrastructure. So that we can create interesting margins on a go-forward basis.

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

Okay. And then can you just talk a little bit about the situation with European banks and nonperforming loan businesses? You guys obviously have a history of divesting in distressed situations. And where are we in terms of the bid ask, if you will, for that business and just sort of your role that you're playing in that situation?

Marc Adam Spilker
Former Senior Advisor

Well, one of the things that I try to emphasize in my script was that part of the value -- part of our success is not just the fact that we have investment expertise and we have capital, which is obviously incredibly important. It's the fact that we are being viewed as a partner and a solutions provider, because each one of these transactions is very complicated. It takes a long time. There's all sorts of issues from the seller's point of view. And so I would say that it's challenging and it's hard and it requires a lot of effort. And so I wouldn't for a second say that there's not a lot of competition because all these businesses are competitive, but it's a very hard space to compete in. Now one of the things that people have said to us is because different estimates, say, there's $1 trillion, there's more of assets that need to be sold, and we just don't see it happening. And the way we think about it from the point of Apollo, only a small fraction of those assets need to come free and come to us for it to be significant to Apollo. And so we continue to see opportunities to deploy capital. Some of the transactions that we're closing are things that we've been working on for 3 to 6 months, and we continue to be optimistic that assets will continue to come off. I'm not quite sure I would say that these are really distressed, because I think that these are sophisticated sellers selling to sophisticated buyers. I think they're trading, from our point of view, at very good risk returns. And we have not necessarily seen it accelerate, given all what's going on in Europe. But it's possible that over the next 6 months, that, that accelerates.

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

Okay. And then if we could just get some perspective on the -- which funds are you generating the cash carry from? You called out a few of some of the realization activity that you have forthcoming in the fourth quarter. Which funds are generating the cash carry right now?

Eugene Donnelly
Senior Adviser

Marc, it's Gene. It's a handful of funds that have significant holdings, underlying holdings in our debt investments. So it's a leverage source coming up to COF and to Fund VI and, to a degree, Fund VII.

Operator

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

William R Katz
Citigroup Inc, Research Division

Just to come back to the opportunity from some of these larger, more complex products. Is there any way to sort of size -- you mentioned sort of more evolution than revolution. But can you size the potential pipeline that you're potentially targeting, beyond the $500 million that you closed in the third quarter?

Eugene Donnelly
Senior Adviser

In terms of the total size of strategic accounts or the?

William R Katz
Citigroup Inc, Research Division

Just in terms of –- is there a pipeline you can sort of see that could help us frame sort of the opportunity for fee-paying assets on a go-forward basis?

Marc Adam Spilker
Former Senior Advisor

The answer I'm going to give you isn't going to be satisfactory, which is, we have some visibility, but I'm not sure what we'll get across the line and not across the line. We have some degree of optimism. One of the things that, I think we've talked about this before, is that the documentation process is quite extensive for understandable reasons, so even when there's a general agreement of principles, it often takes a while to get through. So we have some visibility. I think there is going to be more, but I'm not going to give a sizing of it. And as many other things in our business, that they could be lumpy.

William R Katz
Citigroup Inc, Research Division

Okay. Second question is, you mentioned de minimis amount of redemptions in the third quarter. I'm just sort of curious, as you look into year end, I know your business isn't fully set-up this way. But are you seeing any kind of step-up from the LPs in light of the market volatility in the particularly weak third quarter around trying to get liquid and/or exit some of the holdings?

Eugene Donnelly
Senior Adviser

This is Gene. No, we're not. There's a significant notice period that's required for these redemptions. It varies by fund. But if we look at what occurred in the third quarter, there's been no significant uptick in notifications for the fourth quarter.

William R Katz
Citigroup Inc, Research Division

Okay. And just my last one. From a parent perspective, you're sitting on basically same levels of cash, if you will. Stock is coming quite a bit. I know you got attention of some of the liquid trading stock. But you're certainly suggesting a much more optimistic view on the business than maybe the stock is reflecting. So just sort of curious if you could sort of prioritize the uses of cash on a go-forward basis.

Marc Adam Spilker
Former Senior Advisor

Look, I think -- there's obviously a lot embedded in that question. So we look at these things all the time with our core goals of providing high returns for our LPs and providing shareholder value, and we spend a lot of time thinking about the float. We spent a lot of time thinking about strategic acquisitions, and we put that all into the mix. We think having cash on the balance sheet is a sensible thing to do and evidenced by our ability to do the Gulfstream acquisition. And so we're going to just going to continue to look at all aspects of ways to create shareholder value that include the things that you talked about, which is where's the stock and what the float is and what's the optimal level of cash for us to have on the balance sheet.

Operator

Your next question comes from the line of Robert Lee of KBW.

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

A couple of question. First, the $0.20 distribution. I mean, understanding that there's different types of earning streams that comprise that. Since it's kind of difficult to back directly into the $0.20 from precisely what's disclosed, could you give us a sense of -- was that -- do you distribute 100% of your kind of cash generation in the quarter? Was it 75% or 80%?

Eugene Donnelly
Senior Adviser

Sure. This is Gene. Our policy is to distribute substantially all free cash flow every quarter. Substantially isn't necessarily 100%. What we distributed in the third quarter does include a couple of pennies a share of realizations generated in the first couple of quarters of this year.

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

Okay, great. And secondly, if memory serves me, the employment agreement with the 3 founders, I believe, runs out midyear next year. So is there anything you can provide us on kind of current thinking about continuing those or changing them? I mean, obviously one of your competitors went through something, and I think probably market's reaction to what they came up with is probably a little underwhelming. So how are you -- take any lessons from that or how are you guys thinking about it?

Marc Adam Spilker
Former Senior Advisor

Yes, of course, we think about it. The founders are fully engaged in the business as they always have been. Those dialogues have not happened, and they will over the course of time. And my expectation is that the 3 founders will be here through that contract period and beyond, in the same capacity that they are currently.

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

I guess, maybe as a follow-up, do you think that sometime prior to that -- or sometime next year, will -- you guys will be in a position to announce kind of what the -- if you're changing it, what the change compensation agreement would be?

Marc Adam Spilker
Former Senior Advisor

It's certainly a possibility.

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

Okay. And just to confirm. But the -- going back to the special strategic account, which there've been a lot of questions on. I'm assuming -- or this one is, since it closed in -- I believe in Q3, is structured more as kind of like a drawdown, in the sense that you're not going to earn fees on it until it's actually growing capital. And then maybe as a follow-on to that is, can you give us maybe an idea of the amount of commitments you may have that are not yet earning fees?

Eugene Donnelly
Senior Adviser

Can you say the second part of that question?

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

The amount of committed capital you have that is not yet earning fees.

Marc Adam Spilker
Former Senior Advisor

Related to that managed account.

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

Well, just in -- that and just -- well, just in general for across the franchise?

Gary M. Stein
Head of Corporate Communications

Yes. The second part of the question with respect to what kind of capital do we have that's in our AUM that's not yet earning fees that could earn fees. I think we've stated a number in the past of around $4 billion, which generally includes ongoing capital at some of our private equity funds, as well as certain other funds, which probably comprises the bulk of that amount. And then there are some undrawn lines of capital -- or sorry, undrawn lines of credit at certain of our funds that also could ultimately, if drawned, earn fees as well.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

First, on the uncalled commitments, and this is kind of like a hypothetical. But in terms of those, how much is risk -- at risk of being canceled, say, if it weren't deployed by the end of next year, if actually if any is at risk?

Eugene Donnelly
Senior Adviser

This is Gene. I'm not sure I have the answer to that readily available. From memory, there isn't a lot. But I don't have the specific information handy.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay. But it's not 0. But it sounds like you think it's pretty small.

Eugene Donnelly
Senior Adviser

That's my understanding.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Okay, perfect. In your comments in the release, Athene contributed about $1.4 billion to subscriptions from the acquisition of management agreements. Can you flesh that out further for me?

Eugene Donnelly
Senior Adviser

Sure. Athene is owned by one of our portfolio companies. Athene acquired an asset management agreement for $1.4 billion. We then -- that -- those assets then come into the Apollo platform and are managed either in real estate or capital markets pursuant to different strategies that Athene management makes the decisions on and their own fees at the normal rates that those products and allocations would earn from other investors.

Marc Adam Spilker
Former Senior Advisor

Just to clear, Athene is a reinsurance company and acquired a block in the period, and then they have the assets to manage. And Athene management makes a decision where those assets will get allocated and who would manage on an arm's-length basis. And the $1.2 billion represents the assets that are being managed by Apollo.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Excellent, perfect. And then just higher-level themes. Invested about $750 million in the private equity business this quarter. Are there themes about where you’re seeing value there? It seems like it might have been natural resources. And then the kind of a follow-on to that. Obviously, market conditions have snapped back here but remained really quite volatile. To what extent does a snapback help you in terms of being able to find more investments for the -- for your dry powder?

Marc Adam Spilker
Former Senior Advisor

Well, as I always say, it's a double-edged sword because when the markets go down, we look to deploy, and when the markets go up, we look to realize. And so we -- the volatility makes it slightly more challenging, because if it doesn't stay down long enough to buy and it doesn't stay up long enough to sell, it makes it complicated. So in general, we think the volatility accrues to our benefit. And so when the market started going down through the third quarter, we were doing what we always do, which is reorganizing, looking for stressed and distressed opportunities, which we think we're basically still in that zone, and it's just that things have been repriced higher. And so that if the world were to go back down again, we would continue to look to deploy capital. The unrealized marks would get worse. But we believe, of course, that if you make good investments over a long period of time, we'll realize the value. And right now, we're sitting there continuing to deploy capital. The realizations that we stated are coming from the cash that gets thrown off by the portfolio as opposed to incremental one-off transaction realizations. And if the market went back up again, we would start to really focus on the realizations that we've described that are in the pipeline. And if market conditions got better, we would start to focus on that.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

In terms of themes and where you're deploying, is natural resources a reasonable theme for the last quarter? Or is it other places that seem -- where you're seeing more value?

Marc Adam Spilker
Former Senior Advisor

Well, natural resource has been a theme for quite a long time around here, and so I just -- I think it was just coincidence in the quarter that there were 2 national resource investments. But that does continue to be a theme. I would say the larger theme tends to -- is continuing to be Europe and what's happening with what we talked about earlier, which is bank balance sheets and assets coming off of those balance sheets. And that's -- a lot of the dialogue is around that.

Operator

Your next question comes from the line of Patrick Davitt of Bank of America Merrill Lynch.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

So you mentioned going over the preferred carry. You have that catch-up. I assume that the outsized negative carry in Fund VI this quarter was the opposite result, like having the negative result accrue 80% instead of 20%. Is that the case?

Eugene Donnelly
Senior Adviser

Not really. We were -- our marks in Fund VI were well above the turbocharge carry level. So we had -- we were into the level of realization where we were participating in $0.20 of every incremental profit dollar. So up/down through the preferred returned level, we were returning, on average, 20% of the profits that had been generated above that level.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay. But you -- didn't you say that it's below the preferred return level now?

Eugene Donnelly
Senior Adviser

And so we dropped during the quarter. We then upped below the preferred return level. And to the extent that we've appreciated subsequently, and as we disclosed both in the press release and in the Q, it's approximately a $1.6 billion appreciation that has to occur off the September 30 marks, roughly 18% appreciation. All of that will go to the preferred return, and then we'll be back into that part of carry where Apollo would participate in 80% of every $1 of profit until we achieved 20% overall in the funds with the LPA group.

M. Patrick Davitt
BofA Merrill Lynch, Research Division

Okay. And the Noranda distribution you -- or dividend you talked about. Would that still be distributed to your holders if you're below the preferred return?

Eugene Donnelly
Senior Adviser

If we're -- I mean, that's a complicated question. If we go back to our estimate of where the marks were at the end of October, we're above the preferred return in fund.

M. Patrick Davitt

BofA Merrill Lynch, Research Division

Right, right. Okay, that's helpful. And could you kind of give us an update on the real estate business in terms of fundraising and, to the extent that you're getting traction, as you market that strategy, given that it's still fairly new and not really contributing much yet?

Marc Adam Spilker
Former Senior Advisor

Yes. I didn't mention it in my opening remarks, because it's where we were at the end of last quarter, which is, I would say, chugging along. Assets are growing more so on the debt side than on the equity side, and we are seeing opportunities on the debt side of the business. And I think that business is just going to kind of continue to grow at its current pace.

Operator

We have one final question. Your final question comes from the line of Michael Carrier of Deutsche Bank.

Michael Roger Carrier
Deutsche Bank AG, Research Division

I guess one more question on the deployment during the quarter. So you look at the market pressures, both in credit and equity. You guys are fairly active. Obviously, you had maybe 1 month, 1.5 months to deploy and then -- we got the rally. When you look at the opportunities that you saw versus like the financing available, was that much of a hurdle, like meaning, would you have put more capital to use in some of the situations that you were looking at or wasn't a big issue?

Marc Adam Spilker
Former Senior Advisor

Obviously, financing is more challenging, but it hasn't been an issue. And I would just -- the one thing then, and we say this quarter-to-quarter, is that the deployment of capital is very lumpy, and so some quarters it's far more than other quarters. And so what you haven't seen a lot is classic LBO activity, with the financing. And what we'll continue to say is that we're looking for the off-the-beaten-path differentiated opportunity, and it still seems like it's an interesting opportunity to look for and find some of those opportunities. And so what you see us allocating capital to is differentiated, and then classic to the way Apollo operates is on the debt side of the business, where, obviously, we don't need to use leverage to buy the debt.

Michael Roger Carrier
Deutsche Bank AG, Research Division

Sure, okay. And then last one. Just when you look at the performance, like the mark-to-market, the unrealized losses in the quarter, obviously, on the public portfolio, we can all track pretty straightforward. I think on the private side, just wanted to understand, you gave the stats in terms of the portfolio companies, the revenues, the EBITDA, changes in the trends and all those still looking fairly favorable. It looks like the private side got marked pretty hard as well. So how much of that is based on comps out there versus changes in either cash flow expectations or EBITDA growth over the years, in the future?

Eugene Donnelly
Senior Adviser

A significant amount. I don't have the exact percentage, but there was a significant decline in our private -- in our portfolio of company -- privately held portfolio companies, based on both the general models we follow, which is comparable, priced to comparables, and then some sort of a cash flow methodology. And with the significant decline in stock prices, generally, in the third quarter, that reflected and weighed heavily on the component of our portfolio of companies that are priced based on public comparables. And not unexpectedly, that also recovered nicely based on our estimates in the month of October.

Operator

This concludes the question-and-answer session of today's conference. I will now turn the floor back over to Mr. Gary Stein for any closing remarks.

Gary M. Stein
Head of Corporate Communications

I just want to thank all of you for taking the time to participate on our call. We know you're all incredibly busy. To the extent you have follow-up questions, please don't hesitate to get in touch with me or Patrick Parmentier. Thanks, again.

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