S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

FQ2 2015 Earnings Call Transcripts

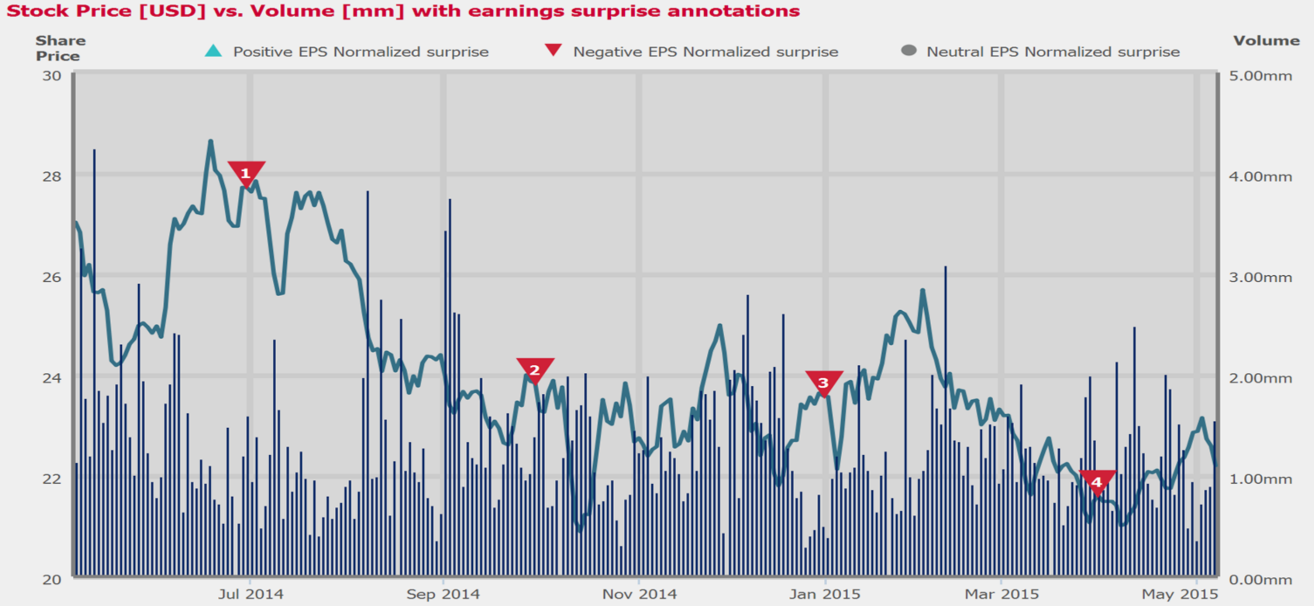
Wednesday, July 29, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.38	8.57	0.48	1.61	2.16
Revenue (mm)	275.52	351.70	27.64	345.00	1310.05	1571.72

Currency: USD
Consensus as of Jul-29-2015 2:35 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.66	0.52	(21.21 %)
FQ3 2014	0.38	0.12	(68.42 %)
FQ4 2014	0.38	0.23	(39.47 %)
FQ1 2015	0.36	0.23	(36.11 %)

Call Participants

EXECUTIVES

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Joshua J. Harris
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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2015 Second Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Gary Stein, Head of Corporate Communications. Please go ahead.

Gary M. Stein
Head of Corporate Communications

Thanks, Crystal, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and Chief Executive Officer; Josh Harris, Co-Founder and Senior Managing Director; Jim Zelter, Global Head of Credit; and Martin Kelly, Chief Financial Officer. Leon, Martin and I will review some prepared remarks, and Josh and Jim will be available with us during Q&A session. I would also point out that Josh is calling in from overseas.

Turning to our results. Earlier this morning, we reported non-GAAP economic net income of $0.38 per share and distributable earnings to common and equivalent holders of $0.48 per share for the second quarter, of which $0.42 per share was declared as a cash distribution.

Before I hand the call over to Leon, I wanted to remind you that today's conference call may include forward-looking statements and projections, and we ask that you refer to our most recent SEC filings for factors that could cause actual results to differ materially from these statements and projections as well as risk factors relating to our business. We don't undertake to update our forward-looking statements or projections unless required by law. We'll also be discussing certain non-GAAP measures on this call, which are reconciled to GAAP figures in our second quarter earnings presentation.

This conference call is copyrighted property and may not be duplicated, reproduced or rebroadcast without our consent. As usual, if you have questions about any information in the earnings release presentation or on this call, please feel free to follow up with me or Noah Gunn.

With that, I'd like to turn the call over to Leon Black, Chairman and Chief Executive Officer of Apollo Global Management.

Leon D. Black
Founding Partner, Chairman & CEO

Thanks, Gary, and good morning, everyone. Amid a volatile and complex backdrop, we continue to identify opportunities for growth during the second quarter, and I'd like to focus my remarks this morning around a few key drivers of our business, including the continued strength of our management business as well as recent fundraising and deployment activity.

We have been very focused on growing the Management Business contribution to the overall profitability of the firm, particularly since it provides a steady and predictable source of cash flow. The revenues we generate in our Management Business are primarily derived from management fees we earn from long-lived assets we manage, more than 75 billion of which are in permanent capital vehicles. In addition to driving top line growth in our Management Business, we also remain focused on margin improvements. During the second quarter, our Management Business generated pretax distributable earnings of $0.27 per share or more than $1 per share of cash on an annualized basis, which we believe represents a strong base of cash flow to our shareholders.

In the context of our current share price, the $1 plus of annualized cash flow per share from our Management Business alone represents a current yield of approximately 5%, and this is before any of the upside cash earnings potential from our Incentive Business, where we have more than $80 billion of carry-eligible assets under management.

Turning now to fundraising. By leveraging our integrated platform, we generated inflows of $3.2 billion during the quarter. Similar to the previous quarter, our fund raising activity came from a variety of our investment strategies and reflects the continued growth and diversification of our business. We received $1 billion from the expansion of our existing strategic investment account with the Teachers Retirement System of Texas, or TRS, bringing the total size of this account to $4 billion. And it's worth noting that this total does not include a separate credit mandate of up to $1 billion more from TRS, half of which is expected to close during the third quarter. We believe the highly successful partnership we've been fortunate to establish with TRS over the past few years is a powerful example of the strength of our integrated investment model and our ability to deliver value across a range of alternative investment solutions.

In addition to the incremental capital we received from TRS during the second quarter, there are a few other inflows during the quarter we'd like to highlight, including: one, more than $500 million from a final closing for our new energy opportunity fund, bringing the total for this fund to just over $1 billion; secondly, nearly $300 million from a follow-on closing of our third structured credit recovery fund, bringing the current total for this fund to nearly $800 million at quarter end; and third, over $550 million of combined new equity and leverage at MidCap, bringing MidCap's total gross assets to $3.3 billion.

In addition to these capital raises, we are also continuing to see positive net flows in some of our open-end strategies, including our credit hedge funds and total return fund. As many of you know, we're actively marketing our second natural resources fund and are approaching a first close for the fund.

Lastly, on inflows, I'd like to point out that we completed the acquisition of a real estate private equity manager in Asia during the second quarter. The team that came aboard expands our integrated investment efforts throughout Asia, and this transaction added approximately $600 million to our real estate AUM.

Next, I'd like to highlight the significant capital deployment activity that occurred during the quarter. Across the broad Apollo platform, the funds we managed committed or deployed nearly $3 billion, which we believe will drive future carry and realization opportunities for our investors. Despite an environment in which valuations generally remain quite high, our investment teams continue to utilize the various pathways we have created to deploy capital to find what we believe to be attractive, value-oriented investment opportunities.

In private equity, the funds we manage were particularly active during the quarter, investing or committing to invest $2.4 billion. Included in this $2.4 billion total is approximately $900 million that was invested during the quarter in transactions such as CH2M, which is a leading engineering services firm; Carige insurance in Italy; and the funding of American Gaming Systems' acquisition of Cadillac Jack. In addition to the closed deals, there were various new investments announced by the funds we managed during the quarter, with combined total commitments of $1.8 billion. These pending investments as of June 30 included: the acquisition of the 2 alarm services companies, Protection 1 and ASG, to create an industry leader; secondly, the corporate carve out of Verallia packaging from Saint-Gobain; thirdly, the acquisition of Slovenia's second-largest bank, NKBM; and lastly, the go-private transaction of specialty materials firm, OM Group.

Following the announcement of these recent investments, the committed but not yet deployed capital of the private equity funds we manage was $3.5 billion as of June 30, of which $1.6 billion was related to asset build-ups in the energy sector that is expected to be deployed over time, with the balance related to deals that have been signed but not yet closed. As of the end of the quarter, Fund VIII is still less than 2 years into its 6-year investment period, and the fund has invested or committed nearly 1/3 of its capital in a diversified portfolio of investments that we believe will generate meaningful long-term value for Fund VIII's investors. And I would just add that we're particularly proud of the fact that we have kept to our value orientation and that Fund VIII is approximately invested at a 6.5 multiple of EBITDA in a 10 multiple environment right now. So I think that discipline is one that we are keeping.

In credit, the funds we manage deployed $1.4 billion across a variety of strategies, including energy lending, CLO debt and equity and other opportunistic credit investments. And in real estate, our real estate funds and accounts deployed more than $600 million, primarily in commercial real estate debt investment. Across the Apollo platform, our funds currently have nearly $30 billion of dry powder available to invest, and we continue to evaluate an active pipeline of opportunities to put additional capital to work.

Before I return the call over to Martin, I'd like to say a few words around the significant milestone in our history. I'm pleased to note that Apollo is now celebrating its 25th anniversary, marking 2.5 decades of incredible growth and strong investment performance of which my partners and I are extremely proud. None of us could've imagined 25 years ago that we would evolve from our one-room office into one of the world's leading alternative investment managers with plenty of growth opportunities still

[Audio Gap]

As I think about what we've -- about how we oriented Apollo in those early days and look at where we are today and where we're going, I'm struck by the sentiment that the more things change, the more they stay the same. At Apollo, we have found success by staying agile amid changing markets, while remaining rooted in who we are. Our investment success has always centered on 4 key pillars: first, our contrarian value-oriented approach, which we believe enables us to identify opportunities by embracing complexity; second, our integrated model across private equity, credit and real estate, which we believe is a true differentiator; thirdly, our pursuit of superior investment performance, which is driven by our ability to identify the best risk/reward for our investors across investment cycles; and lastly, our deep bench of extraordinarily talented professionals, many of whom have been with us since our early days and others who have been integrated into the fabric of our culture more recently.

At Apollo, we believe our success begins and ends with our relentless drive for good investing, which means it begins and ends with our people. From leaders across our business, like Jim Zelter in Credit or Scott Kleinman in Private Equity, to our most recent hires just starting out, performance and people are inextricably linked. And as we continue to grow, we'll always seek out the most tenacious, smart and creative professionals to join our team and help us push forward. That's how we expect to continue to create and capitalize on the most attractive opportunities for our investors, fueling growth across our platform and executing innovative strategy.

When we established the firm 25 years ago, we set out to build something that was different, something that would last and something that would outperform. We're very proud of what we've accomplished and believe that the continuity of our strategy and the strength of our amazing team is a truly winning combination. And as I look to the future, I know the best is yet to come for Apollo, and I can't wait for what our firm accomplishes next together.

With that, I'd like to turn the call over to Martin for some additional comments.

Martin Kelly
Chief Financial Officer

Great. Thanks, Leon, and good morning, again, everyone. Starting with our economic earnings for the quarter. In the Management Business, we earned $92 million of economic income, which was in-line with the prior quarter. While we continue to carefully manage our cost base, looking forward, we expect compensation and non-compensation expenses to rise as we continue to grow the platform. Specifically, over the second half of the year, we expect to incur funds placement fee expenses of approximately $13 million related to various fundraising initiatives, primarily reflecting expanding distribution relationships with wealth management platforms. As Leon mentioned, we remain focused on expanding our management business through top line growth and disciplined cost management, further driving our margin which we believe is already industry leading among our peers.

Turning to the Incentive Business. In private equity, the 2.7% appreciation in the second quarter was driven by 1% appreciation in publicly traded portfolio company holdings and 4% appreciation in private portfolio company holdings. With $14 billion of unrealized value across the private equity funds we managed at the end of the second quarter, this generated total carry of $81 million during the quarter.

In Credit the investment performance of the funds we managed was positive, up approximately 1.2% on a gross basis and 0.8% on a net basis for the quarter, excluding the non-sub-advised assets of Athene. Despite the positive fund performance, carry income was on the lighter side as one of the drawdown funds we managed that was earning accelerated catch-up carry, reversed course and returned some of the accelerated carry that was previously accrued as is convention.

I'd also like to note, however, that we continue to see growth in both carry-eligible and carry-generating AUM within the credit business during the quarter. In fact, carry-eligible AUM in credit is higher than it's ever been, so we remain optimistic about the performance fee earnings potential in this business. Lastly, on the incentive business, there was a discretionary incentive pool compensation accrual in the quarter of $20 million within realized profit-sharing expense.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter. First, within other income in the Incentive Business, we realized a $25 million increase in the valuation of our direct ownership stake of Athene. In dollar terms, Apollo's 9.2% economic interest in Athene is valued at $471 million on our balance sheet as of June 30. Note that this amount excludes the $136 million gross carry receivable related to AAA as of June 30 that we expect to be paid in shares of Athene at a future date.

Next, the percentage of Athene-related assets invested in Apollo managed funds was approximately 24% or $14.4 billion as of June 30, up from 22% as of March 31. We expect the sub-advised assets under management to continue to increase gradually over time as long as we continue to perform well in providing asset management services to Athene and also identify opportunities to redeploy their investment portfolio.

As it relates to taxes, our ENI tax rate in the quarter of 2% was driven by a lower amount of taxable carry as well as a tax deduction in connection with share deliveries. While subject to change based on the ultimate composition of our earnings, we currently expect our full year 2015 ENI tax rate to be single digit. Additionally, we expect the tax rate to normalize toward our longer-term range of 10% to 20% previously articulated as we enter '16.

With regards to our cash distribution, the $0.42 that we declared today was driven by a $0.27 pretax contribution from our Management Business and $0.18 of net cash carry, of which $0.04 resulted from a tax-related distribution.
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 Luke Montgomery of Bernstein Research.

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

In Credit, I was hoping you could just walk through the conversion of carry-eligible to carry-generating AUM. It looks like dry powder invested and invested but not earning carry AUM declined a tad. The amount of invested over 24 months is still $4.4 billion and needs about 6% appreciation, yet the carry-generating AUM increased about $2.6 billion to $23.3 billion. So perhaps you could just help me bridge the change, which is better than those indicators would have suggested.

Martin Kelly
Chief Financial Officer

Sure. So I think you hit on a number of the points there. Within Credit, the 1.2% gross return was a 2.7% gross return in the drawdown funds. And within that segment of the business, we had a number of funds that were close to carry but not in carry last quarter, step up above the pref [ph], and that was really the reason for the increase. What's left, to your point, is a slightly reduced amount of AUM invested but not in carry, but with a slightly greater gap to get to the pref [ph].

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

Okay. So it was the market appreciation then?

Martin Kelly
Chief Financial Officer

Yes, in opportunistic, in particular, driven by the higher-yielding assets, some of which was energy, some of which was broader based?

Lucas Gabriel Montgomery
Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then on the escrow piece from Fund VI, it always seems a little bit mysterious. You've had realizations from the fund. The remaining investments are 100% of cost, I think, versus 104% last quarter. The hurdle rate is 115%, but the balance is more or less flat at $167 million. So maybe just help me understand the puts and takes that drive that balance. I guess there's the taxable phantom [ph] income that causes you to maybe distribute some of it. But what are the other inflows and outflows?

Martin Kelly
Chief Financial Officer

Sure. The escrow calculation is quite complex, and the key moving parts to the calculation, well, I guess, firstly, the escrow is based on what's remaining in the portfolio, so what's the value of remaining assets relative to their cost base. And that ratio then is affected by a couple of different things. One is changes in the value of those assets; two is what's sold and in what sequence assets are sold, meaning sort of higher cost base versus lower cost base; and then thirdly, any other changes to the cost base of the assets. During the first half, we recognized an impairment on one of the assets in Fund VI. And while that did not impact ENI because we already marked it down, it did bring down the cost base of that asset and it also resulted in a diversion of cash flows from sales to the LPs. So when you stand back from it, the cash that came in from sales was diverted to LPs as a result of that impairment. The benefit of that was that it helps the escrow ratio by reducing the denominator in the ratio and it would, all else being equal, would result in us coming out of escrow sooner than we would otherwise. The last point I'd make is then that Fund VI itself sort of lost money on a mark-to-market basis during the quarter. That was mitigated by the return of capital that I just mentioned, so all of that sort of nets off to cash. Cash is the same on a per share basis, and the ratio is effectively unchanged within a couple of percentage points.

Operator

Our next question comes from Bill Katz with Citigroup.

William R Katz
Citigroup Inc, Research Division

First one is actually a 2-part question. Sort of wondering, could you lay out the time line in terms of the elevated placement expenses for the second half of the year? And when you step back, I think you've been pretty active. You just linked up with Waddell

[Audio Gap]

...that you've worked with Oppenheimer, and now you have sort of this wealth management strategy. Can you sort of step back and tell us where you think you are strategically in terms of any real time momentum for generating some retail flows that might boost your overall growth rate?

Martin Kelly
Chief Financial Officer

Sure, Bill. So I'll address the first part of the question then I'll hand over to Gary for the second. So on the placement fees, it's a couple of different funds. The most important or most meaningful is our second natural resources fund. It's -- although we expect a first close of that fund during the third quarter, it's tough to predict specifically when the placement fees will be paid, because they'll be paid to the wire-houses for the high net worth distribution. So it could be Q3 or Q4 or actually both.

Gary M. Stein
Head of Corporate Communications

Yes, just on the retail component of our business, as we've said in the past, Retail remains an important part of our platform and will be a growing contributor to our flows over time. Today, Retail, if you include high net worth and family office is around 15% of our AUM, and we do certainly expect that to grow over time. You mentioned, just yesterday Waddell & Reed put out a press release announcing that they had filed to launch 2 new mutual funds, both of which will have Apollo as a component of the funds. Specifically, it will look to replicate our total return strategy within Credit versus the more liquid end of our credit business. They hope, pending SEC approval, to launch those funds in October, and so we'll just have to wait and see on the time lines there. And then with respect to Oppenheimer, which we mentioned previously where we also have a sub-advisory relationship, the shareholders of that fund did approve an allocation to Apollo, and we do also expect that to begin to ramp in the fourth quarter. And then we continue to have conversations with others. We've said in the past we do believe this sub-advisory component to be very scalable and works really well in terms of marrying our less liquid solutions with the more liquid needs of daily liquidity funds, and so we do expect this to grow over time.

William R Katz
Citigroup Inc, Research Division

And then a follow-up maybe, Leon, I'd be curious to get your perspective. A couple of your peers have sort of laid out how quickly they think they can put some of their dry powder work or more importantly, some of their non-fee-paying AUM yet at this point in time. So just given your thoughts about where we are in terms of market levels, how do we think about the outlook for fee-paying AUM growth, which has been pretty flat for the last several quarters?

Martin Kelly
Chief Financial Officer

So fee-paying AUM has about 9 -- sorry, $10 billion of fee potential. Most of that's in Credit, $7 billion of the $10 billion is in Credit. Within Credit, most of the drawdown funds pay fees as money is deployed versus as it's committed. So I would look at the pace of deployment in Credit, which was $1.4 billion in the quarter, $2 billion on a year-to-date basis. And if you go back in time, so $5 billion last year, $3 billion the year before. That's probably -- if you average that, that's probably a good run rate to think about as that fee-paying AUM is put to work, realizing that not all of that is earned on deployed. Some of it's undocumented, but the majority of it is.

Operator

Our next question comes from Chris Harris of Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Wonder if you could provide a little bit more commentary of the real estate manager you acquired in Asia, what the plans are there, how quickly you think you can scale that and what the potential opportunities might be.

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, I'll take that. It's -- we're building an opportunistic Apollo-esque business in Asia. It's hard to do that. And so therefore, this business is likely to start, and this is a great team. It had a great -- was our style of investor. And so we're -- by joining with us, we provide oversight and distribution to this team, and it links very well with the existing private equity and credit platform that we have and it creates kind of a special situations approach. I would say this will be a small but growing part of our platform. And if you think about Asia, today, Asia is between 1% and 3% [ph] of our assets. And clearly, there's a lot of upside there. But the trick is doing it in an opportunistic Apollo-esque way, and many of the investments in Asia are higher priced and the creditors' rights and legal systems in many countries are difficult. And so you have to pick your spots. So it's a -- we, today, are very focused on ramping Asia. We think Asia could grow significantly, but we're growing off of a small base.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay. Understood. And my one follow-up would be, as you guys continue to ramp Fund VIII, are there any restrictions to where that fund can invest, whether it's by sector or individual holdings? I'm just wondering if there's any concentration limits particularly for that fund.

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, there's no -- the limitations are very sparse, but what we tend to do is apply common sense limitations. And when we get to an industry that -- when we get to 20-ish percent to 25% of a fund in any -- and even in a broad industry categorization, we tend to back off. And then we really will go above 10% of a fund in any one investment and even 10% is a lot. And I would say that in general, the U.S. has been 75% to 80% to 85% of everything we've done, and Europe and rest of world sort of have been the balance. And when Europe and the rest of the world are interesting, we tend to do a little more. And when Europe and the rest of the world are less interesting, we tend to do a little less. But to a large extent, usually that fund is a primarily North American fund, but we have a global network and we're always looking. Today, Europe is actually quite interesting, so we might cheat towards the higher end of that range from an international point of view. But the constraint -- that fund is highly flexible and opportunistic, but we tend to self-constrain based on common sense.

Operator

Our next question is coming from Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

A couple of things on real estate. Seeing nice AUM and fee-generating AUM growth, part of it acquisition, part of it new funds, any reason why you wouldn't or couldn't buy in Europe the way you have -- just have in Asia? And on your Asian manager, what do the IRRs look like in its legacy fund of funds? And your real estate business has been a real complement to your credit business. So can you talk about how this new manager kind of fits in the credit area as well?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, so a lot of questions there. I would say that there's no reason why we can't buy a real estate manager in Europe. We do have through -- we have been buying a decent amount of real estate through our nonperforming loan business. We have a small dedicated real estate effort in Europe, but we're -- if you think about our nonperforming loan platform, the underlying collateral is kind of greater than half real estate. And so we -- today, that's been the right way for us, we think, to get the most value. We also have the ability to invest out of our -- we have a global real estate business that's been focused on the U.S. We can also use that. So I'd say that we're always looking opportunistically at assets [ph]. And if we found the right people with the right culture and the right value orientation at the right price, we would certainly buy something in Europe. Today, we're getting that exposure through the means that I chatted about. So that was question one. What was the other question?

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Yes, the other question was just on Asia. So IRRs in its legacy fund of funds and then the complement of the Asian real estate business to your credit operation, which you kind of talked about generally, but just how does the Asia component maybe fit in?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes. So the IRRs in -- the legacy IRRs, the fellow that ran the Asian real estate business, came from Warburg Pincus. And these IRRs, we can't disclose but they were quite attractive and anytime we buy a manager, certainly one big component of it would be what their historic track record has been in getting behind that. And so that was a big component of our diligence. In terms of how it complements, he tends to be very Apollo-esque. So much of what he did was very highly structured debt investing in addition to private equity investing, similar to what we've done in our private equity funds. And so, therefore, it sits quite nicely into our Credit business in the sense that it's similar to the way our U.S. and our European businesses work. We use the private equity funds for control-oriented distress, and Credit sits in nicely above that in stressed and opportunistic, all the way up to performing. And so it clearly -- this gives us a way to express a view on a company in a much broader sense. And so, certainly, it expands the number of offices we have in Asia, expands the team in Asia. The team is integrated very similarly to our U.S. and European teams. And therefore, when an idea comes in, we look across the capital structure up and down. And so it fits quite nicely. They have a strong presence in India, as do our Credit business as well. And so there's a lot of, I think, strategic synergy to the Asian real estate business. And it just gives us girth there that we didn't -- it expands our team and our ability to invest. And we're actually quite focused on it -- and investor capital, which we haven't even talked about.

[Audio Gap]

In terms of incremental future growth.

Leon D. Black
Founding Partner, Chairman & CEO

You've got to put Athene at the top of the list. The business that they have today, when Josh alluded to it, but not only in the U.S. but in Europe, there's quite a bit of potential M&A opportunity with that company going forward. So certainly, we think that is going to be a major driver. Following our 5-year plan in December, we were still very excited about the organic M&A opportunities around Athene. Second to that, certainly has to be MidCap. MidCap has grown. We bought it a bit ago. This quarter or year-to-date, it added over $500 million in assets. And we are very, very excited about the success of the teams to date, and the opportunities they're seeing in the marketplace with the continued deregulation and deleveraging of financial institutions. The middle market lending, historically, for MidCap had been really in the healthcare industry, but we have successfully through the integrated platform brought in a variety of other financing opportunities. So our long-term goals and aspirations at MidCap are just beginning, and we think that will be a big driver. Certainly, it sort of have been alluded to in the call earlier, but real estate, the way to play real estate in a over-valued market or in a highly valued market is to do more debt and structured solutions. We've done that through Apollo Commercial Real Estate Finance, and certainly, we believe that, that's going to steadily grow and create a variety of opportunities for -- and that team not only supplies product for that vehicle, but also for Athene as well on their balance sheet. And finally, AINV, which is the BDC, that continues in a marketplace where, certainly, permanent capital vehicles in the credit space are few and far between, and notwithstanding where the book value, the stock's trading to book value, we still believe there is nice, steady growth opportunities in that vehicle as well. So a couple of the other ones are close-end vehicles, the tactical income fund and senior floating rate fund. That was really -- those were created to establish a path for retail investors to be involved with us. And as Gary mentioned earlier, our dialogue on Kodiak [ph] products with Waddell and Oppenheimer, we still feel those will be future opportunities. So really just to summarize, really, we have to put Athene at the top, followed by MidCap, Commercial Real Estate and the BDC, those are the 4 areas of -- the real drivers of continued growth.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

And then just circling back to MidCap, which has a $3.3 billion in AUM now. What -- can you remind us what the AUM growth targets are for MidCap? And how we should expect that to be funded between debt and equity?

Leon D. Black
Founding Partner, Chairman & CEO

Well, we talked about it being a driver for growth in our 5-year plan in December, but we did not really get into details about it. But this is a business that compared to a variety of our commercial finance companies, it has leveraged facilities anywhere from 3 to 4.5 to 5x, but certainly it has a broad base of financing facilities. But certainly, looking at the growth multiples of where it is today, over an extended 3-year period was certainly within our grasp and our aspirations.

Operator

Your next question is coming from Devin Ryan of JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Maybe just starting with the reversal on the catch-up carry that was highlighted, how much was that? And then also, how much is left of the catch-up carry there?

Martin Kelly
Chief Financial Officer

So that was in one of our European funds. We haven't disclosed the amount -- the impact on the quarter was about $0.03 a share in terms of negative marks.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Got it. Okay, great. And then just following up with respect to energy, obviously, the pullback here on prices. I know that -- I think the last update you guys had said that, 75% or so of your exposure was hedged over the next several years. So just curious, at what point of energy prices, commodity prices, we're going to have to revisit marks, and is that still the case, the vast majority is hedged out for the next several years?

Joshua J. Harris
Co-Founder, Senior MD & Director

Yes, I'll take that. I mean -- I'd said that certainly, we're pretty fully hedged. We're significantly hedged through '15, and then it rolls off in '16 and '17. So if we see now -- so that's kind of the answer there, that, certainly, the companies that we own in private equity will start to be impacted. If you think about our exposure though, it's relatively small when you compare it to the capital we have yet to invest. And I think that the team has been very conservative about how much leverage they put on the business -- the businesses and the prices they've paid and liquidity that they have available. And so I feel that, a, the -- I think the current energy cycle is going to be -- and then we also have a large amount of undeployed credit dollars, where we're sitting and waiting. And so, I think that we've been quite public about the fact that we see it getting worse before it gets better. We were a little surprised at the increase in pricing. That's kind of pulled back at this point. We thought the markets were wildly aggressive when -- last -- at the -- when the -- during the fourth quarter of last year and early this year, there was a record issuance of equity and debt to, in essence, band-aid many of the energy companies. And so we've sat back and waited. And I think that if the -- we feel like the market is coming towards this. So I do think that we have a small existing portfolio. It's in good shape. Certainly, at some point prices need to go up. But I see much more opportunity and I see downside for us in the energy space.

Leon D. Black
Founding Partner, Chairman & CEO

Yes. And I would just add to Josh's point. In credit we have been, with this integrated view and with Josh's view and Greg Beard's view about what was going on in the macro, we've been very, very cautious and thoughtful this year in capital that we have raised for energy opportunities. As Josh mentioned, the first quarter there was record equity and debt issuance, and people thought that the need for solution-type capital across private equity and credit would be muted. The reality is those -- that issuance and those -- from debt equity have severely underperformed in the last 8 weeks. And certainly, we believe from the top-down macro, in addition to, there will be a great deal of bank reserve-based lending redetermination in the fall. This is when people talk about restrictive and regulatory environment. This is a good example where the arm of the OCC and the Fed is going to be much more draconian with reserve-based lending. And we feel we are in a great position to be able to deploy opportunistic capital across credit and private equity as a result of these macro and financing market conditions.

Martin Kelly
Chief Financial Officer

Yes. And just to put some numbers around it. Broadly speaking, if you look at our total AUM and back-out fee and asset managements, energy broadly defined as about 6% of our total AUM as of quarter end, and that's made up of about $3 billion in Private Equity exposure and about $3.7 billion across Credit.

Operator

Your next question comes from Michael Carrier of Bank of America Merrill Lynch.

Unknown Analyst

This is Mike Needham [ph] for Mike Carrier. I'll start with a question on the real estate business in the quarter. Performance was pretty good in 2Q, but on an economic income basis it's still relatively weak. Are there things that you can do to get the management business to operate at a profit, be it an acquisition, finding other ways to scale that business or maybe something on the expense side?

Joshua J. Harris
Co-Founder, Senior MD & Director

It's off-scale. So in other words, like the reality is we're investing in the business. And, I mean, as Leon mentioned, it's all about people. And -- we have a team that has critical mass and so the assets are catching up. I mean -- I think to a large extent I think -- we -- cost cutting from here would be somewhat unproductive in the real estate business on a large scale. We're always looking for opportunities to cut costs, but this is -- we have a good team. We have a global team, and now we need to raise assets and deploy them, and that just takes some time, particularly in a market that is overvalued, when you're a value oriented investor.

Martin Kelly
Chief Financial Officer

And I just said part of the uptick in expenses in the quarter was one-time costs as a result of the Asia acquisition and then part of it is [indiscernible] people, which will be part of the run rate going forward.

Unknown Analyst

Got it. And just 1 follow-up. The Athene markup, did that flow through the other income line of the incentive business? Just wondering why that line was so strong this quarter.

Leon D. Black
Founding Partner, Chairman & CEO

Yes, that's -- there's a number of items that go through that line and at GP stakes as well, but most of -- the Athene -- the impact of the Athene markup was $25 million and that relates to our 9% economic interest in Athene.

Martin Kelly
Chief Financial Officer

I would just add. Athene was marked up about 6% in the quarter. And if -- if you want some additional detail on Athene, it continues to perform well. The Athene management team did a public investor call on June 23rd, and a replay of that is available through the AP Alternative Assets website.

Operator

Your next question comes from Michael Cyprys of Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

So just back to real estate, you spoke about fundraising picking up there and the acquisition of the Asia Real Estate Managers. I guess a bigger picture, could you talk to your overall strategy in real estate? You've been in the business for some time, but how are you building out that business today? What are some of the products, gaps in geographies that you're looking to fill in? And is there any appetite for moving into core plus?

Leon D. Black
Founding Partner, Chairman & CEO

I would say all of the above. If you look at Apollo today, I think our AUM in real estate is something in the $10 billion range. I think if you kind of add all the different parts, it might even be a little higher in the $14 billion to $16 billion range. Look, our view, as we said last December, is we would like, we're not projecting, but our aspiration is to double that. Some of that's going to be organic and some of it's going to -- in terms of new product development, like what we're doing in Asia. But we are also aggressively looking to strategic add-ons, and there it's really a matter of finding the right people, the right chemistry, fitting into our Apollo-esque way of valuing the world. But it's an area that we would like to be a bigger piece of Apollo, but it has to make sense from a valuation and a people point of view.

Michael J. Cyprys
Morgan Stanley, Research Division

And any additional color you could share in terms of products or geographies where you're thinking about teams and potential acquisitions there?

Gary M. Stein
Head of Corporate Communications

Well, certainly, as Josh said, we -- we're doing -- we do a lot more in Europe than people would look at, because our NPL business really capitalizes on that. And I think if you said to us right now, where's your favorite place to invest around the globe in real estate, it's key gateway cities in the U.S., key gateway cities in Asia and then throughout the continent in Europe, and that's what we are doing. So as Leon said, certainly, I think core is something that's a little bit later for us to add, but we're adding a whole host of -- we'd like to add more debt capability, more origination capability and more opportunistic capability. But you need to have a market cycle, have a little bit of choppiness and volatility, and we're 6, 7 years up into an upswing in that marketplace. So being patient right now, the opportunity in Asia came about. We look at a lot of teams. That one was -- it developed in time. And we're going to be patient on the other areas as well.

Operator

Your next question comes from Brennan Hawken of UBS.

Brennan Hawken
UBS Investment Bank, Research Division

So we've seen a withdrawal of some sovereign wealth fund money among traditional asset managers and obviously, different liquidity profile there. But given the decline in oil, have you noticed any change in allocations, appetites or behaviors from your sovereign wealth fund clients?

James Charles Zelter
Chief Investment Officer of Credit and Managing Partner of Capital Markets

The answer, emphatically, is no. In fact, our dialogues have expanded. I think it's a little bit the way of fundraising in general. It's kind of a bifurcated world of haves and have-nots. And fortunately with our performance, we've been in the position of haves and that includes our relationships with sovereign funds.

Brennan Hawken
UBS Investment Bank, Research Division

Terrific. And then on the leveraged finance funding markets, given the regulatory pressure there, are you seeing any change? Are you seeing shadow banking systems stepping into any material degree? And how do you think that this could impact deal velocity from here?

Martin Kelly
Chief Financial Officer

Well, I think that what we have found, in our recent acquisitions in private equity, we have not had any challenges of accessing the market. We -- we've gone -- we've really gone out to make sure that investors know what our -- what our strategy has been, what our returns have been. And we've been very positively and nicely surprised by the breadth of investors who want to spend the time to get to know us because they know that we will be a large issuer going forward. Certainly, there are some opportunities. Could we see the traditional banking financial providers be augmented by some alternative providers in our capital structures and private equity? Certainly do, and not surprised by it. And the other side of the coin, our activities, whether it's in MidCap, our activities in our loan business, in a lot of our opportunistic business we continue to benefit from that. I do think the headlines are correct that the leveraged lending guidelines are being followed in stricter manner by a variety of banks today, and that it is impacting some loan origination. Loan origination is down year-over-year about 25%, and -- but that's not held us back from achieving our goals in CLO formation, and structure credit formation. So as Leon said about the fundraising of the sovereigns, we are in the haves versus the have-nots, so we've been able -- to be able to navigate that, and we've been a positive beneficiary. So I see that continuing. I don't see a massive widening of new issue yields because of some players withdrawing, but I see a pretty firm market for companies that can have access.

Operator

Your next question comes from Chris Kotowski of Oppenheimer.

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

Yes, I guess this is a question for Jim Zelter. Recognizing that you invest in a lot of non-traded illiquid credit. I mean, if you look at the portion of the iceberg that is liquid and traded, it just seems like that you can't get an uptick in the past year that -- whether you look at the high yield indexes or leveraged credit indices, they're all down steadily in the past year, and the BDC sectors, including Apollo, they all trade like we're on the brink of a recession. And I guess my question is, what is the market trying to tell us? And other than energy, do you see any stress on the borrowers that would imply deteriorating credit quality in terms of coverage ratios or things like that?

James Charles Zelter
Chief Investment Officer of Credit and Managing Partner of Capital Markets

Well, there's a bunch questions there, but let's just sort of go through one at a time. You are correct. If you look at year-to-date loan and high-yield returns, loan funds were up 2% or 3%, high yield breakeven to 1%. And the performing, our loan funds and our CLOs have done very, very well, and -- so that part of the market. The market you identified is whether it's the BDCs or high-yield funds, there's a great deal of concern about energy exposure. There's a great deal of concern about liquidity of the underlying assets. And what you're really talking -- what you're really highlighting is, the indexes are still in the black year-to-date nominally, but if you look at the amount of credit dispersion, energy, metals and mining, some of the consumer REIT, distressed area of credit. Luckily, we don't have -- most of our capital is really in the performing side or in the deep distress side, but -- and I'm thinking your BDC question really is more of a question of people's perception of their ability to raise equity or inability to raise equity right now because it's trading at a discount. And it's really -- that's a -- while it's a nice business for us and it's a $3 billion, $3.5 billion, the other parts of our credit business are much larger and had been a beneficiary of positive performance and...So from our perspective, the -- whether what's going on in China, energy, the commodity concern of imploding commodities across the spectrum and this redetermination in energy, we think that there's going to be good opportunities for us over the next 6 to 12 months in terms of deploying some of our dry powder. But you are right, the index and headlines don't reflect the dispersion that's going on in the underlying markets.

Operator

Our next question comes from Patrick Davitt of Autonomous.

M. Patrick Davitt
Autonomous Research LLP

On the Athene mark, is there any kind of group of comps we could track in those, or is it really best to pay attention to what they're kind of reporting for the public [indiscernible] June call in terms of trying to track when those big marks are going to come through.

Martin Kelly
Chief Financial Officer

Well, we value Athene. When we raised the financing a year or so ago, we marked at the then offering price. And then since then, we apply evaluation model, which is called [indiscernible] basically a DCS model of the in-force business, and that's affected by changes in rates. So the backup in rates this quarter increased the value, given that it's sort of a structurally short company and new origination policies. We will -- we expect to move to a multiples approach once we have a -- our current unreliable book value. And so as Athene continues to work through their catch-up get to a point where we move to a multiples approach.

M. Patrick Davitt
Autonomous Research LLP

Okay, great. And then...

Joshua J. Harris

Co-Founder, Senior MD & Director

I just want to clarify that with respect to Athene, they -- obviously, they had restated their Q1 '14 financials. On the June 23rd call, they released their Q2 and Q3 financial statements for '14, and they should be caught up with '14 financials by September, and fully caught up by year-end.

M. Patrick Davitt
Autonomous Research LLP

Great. And finally, could you give an update on the distribution quarter-to-date. I think there is a big [indiscernible] recap coming through?

Martin Kelly
Chief Financial Officer

So -- yes. So the distribution is -- have announced, but not -- closed transactions is $0.10 and that's related to [indiscernible].

Operator

Our final question is coming from Robert Lee of KBW.

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

Just -- well, the first question is little bit of a modeling question, I guess. But, on Page 10 of the deck, if I look at the taxes, payables that drive DE, I mean, it's down $40 million year-over-year. So kind of curious what's driving that? And how should we think -- should we assume that over the second half of the year that, that's going to bounce back towards historical norms? Or is this kind of a -- is there something going on here that's going to leave it below historical -- historic trends?

Martin Kelly
Chief Financial Officer

Well, I would look at the ENI effective tax rate and its DNI effective tax rate, and I'd say a couple of things. One is, if you compare us now this year with where we were last year, the tax rate is benefiting from 2 things. One is, we had the CNS fee from Athene last year which was taxable noncash income and sort of taxed at a high marginal rate, and since that ended last year that has benefited the tax rate. And we're also benefiting from, in this year, a number of stock delivery deductions, that were -- relating to stock that was issued back at the roll out and it's only just being delivered now. And so there's no impact of that on our share count. It's in the fully diluted share count, but we're getting the tax benefit for it now. So we -- and then I think, we are also benefiting in the tax rate from a -- sort of a large taxable carry period of time, and so mix of taxable income to nontaxable is important to the rate. So I would say, for the balance of the year, as I said in my remarks, think single digit, although that's subject to taxable carry. Longer term as we get into next year, the ENI tax rate would be sort of in the teens, sort of 10% to 20% range. The cash tax rate on a fully diluted basis will lag a bit behind that on the assumption that realizations lag behind value creation.

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

Okay, great. And maybe a follow-up, and this goes back to kind of new market lending and MidCap and the AINV. I guess, I'm just kind of curious to know both MidCap and AINV do middle-market lending through different permanent capital vehicles, I mean understanding one's BDC [indiscernible] capital right now, has a limit on leverage. MidCap Financial, I guess, is a C Corp., [indiscernible] put more leverage on it. But I guess, in terms of, at least, deal sourcing or origination, they really kind of doing the same thing, or how are their businesses different? And I mean, I don't know, you guys have been pretty creative over the years. Is there a way of actually combining those platforms to build scale even faster, and maybe grow the middle market lending business faster?

Leon D. Black
Founding Partner, Chairman & CEO

Well, let me answer 2 questions. They -- while they are both origination enterprises, they really service a different set of clients and a different product set. MidCap really is a senior secured lender. Typically, they're lending whether it's an ABL or revolver or a term loan, it's leverage points of 3 to 4.5x, and for that they get LIBOR of 450 to 550, 600, and if you're correct that entity then can have some financing such that you get return on equity with that type of loan with 3 to 4 turns of leverage in the lender. The BDCs for the most part, not only Apollo, but all of our peers, we -- because of the leverage limitations of 1x, and you never really want to operate at 1x, you typically operate between 0.5 and 0.7, making that LIBOR-plus 450 to 500 loan, you're not able to lever that enough to actually return -- have the return include [indiscernible]. So you're much more of an enterprise lender or a -- while you want to be a senior lender, you're lending more as an enterprise risk than really a cash flow senior secured lender. So it is 2 different markets. We cover -- we work very well together, we source together. We hand transactions back and forth, so it's a very, very -- it's an integrated approach with our coverage model. And certainly, we think of ourselves as creative, and if there is a time in the future [indiscernible] in terms of what a BDC can do, that may give some more opportunities to us. But right now, we look at the businesses that they pursue while integrated, yet distinct and unique to each other.

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

That's helpful. Just squeezing one more quick question on Athene. Delta Lloyd, if I remember correctly, that was supposed to -- or expected to close, I guess, later this year, add few billion of assets, is that still the case?

James Charles Zelter
Chief Investment Officer of Credit and Managing Partner of Capital Markets

Yes, Delta Lloyd, it's $6 billion of assets and on target to close during the fourth quarter. And as we said, really -- I think Athene looks at Delta Lloyd as potentially a platform within a German market and looks to that potentially as a vehicle to consolidate the German market just as it done in the U.S. over the past 5 years.

Operator

That concludes the Q&A portion of today's call. I will now return the floor to Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Great. Thanks, everyone, for joining us this morning for the call. As we've said, if you have any follow-up questions, please feel free to circle back to Noah Gunn or myself.

Operator
Thank you for participating in the Apollo Global Management's 2015 Second Quarter Earnings Conference Call. You may now disconnect.