S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

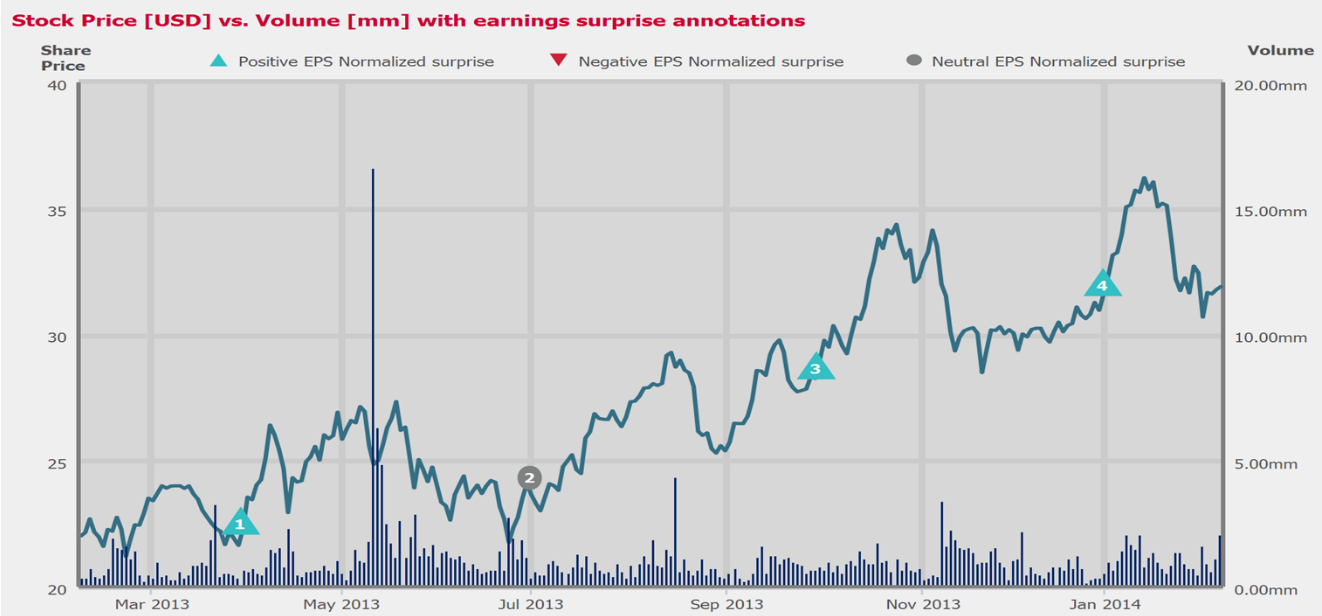
FQ1 2014 Earnings Call Transcripts

Thursday, May 08, 2014 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.55	(5.17 %)	0.72	2.82	2.90
Revenue (mm)	501.84	491.40	(2.08 %)	642.72	2483.30	2711.31

Currency: USD
Consensus as of May-08-2014 3:14 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	1.22	1.89	54.92 %
FQ2 2013	0.50	0.50	0.00 %
FQ3 2013	0.94	1.34	42.55 %
FQ4 2013	0.81	1.06	30.86 %

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Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2014 First Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded.

I would now like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and CEO; and Martin Kelly, Chief Financial Officer. In addition, Josh Harris, Senior Managing Director, is on the call today and will be available for Q&A.

Earlier this morning, Apollo reported non-GAAP after-tax economic net income of $0.55 per share, and we also declared a cash distribution of $0.84 per share for the first quarter of 2014. For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $72 million for the first quarter of 2014 compared to $249 million for the first quarter of 2013.

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

We will also be discussing certain non-GAAP measures on this call, such as economic net income, which are reconciled to our GAAP net income attributable to Class A shareholders. These reconciliations are included in our first quarter earnings press release, which is available in the Investor Relations section of our website.

Please also refer to our most recent 10-K for additional information on non-GAAP measures and risk factors relating to our business.

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

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

Leon D. Black
Founding Partner, Chairman & CEO

Thanks, Gary. And good morning, everyone. Before I begin my prepared remarks on our business, I'd just like to take a brief moment to thank Marc Spilker for his contributions to the firm during his tenure as our President. As many of you know, we recently announced that Marc stepped down, but we are very glad he remains aboard as a senior advisor to assist the firm in the transition through the end of the year.

Marc was very instrumental in helping the firm get off the ground as a public company, and he was engaged in communicating our business to all of you, which is something that I, along with my partners, Josh Harris and Marc Rowan, expect to take a more active role in going forward.

This call marks the 3-year anniversary of our first earnings call since listing in the New York Stock Exchange in our 2011 IPO. While much has changed in the short time since, I'm proud to say that our firm has continued to grow and diversify, reinforcing our position as a leading global alternative investment manager.

First, our AUM has more than doubled to nearly $160 billion during that time, up from just $68 billion at the time of our IPO, largely driven by robust growth in our evolving credit business, which stands today at over $100 billion.

Secondly, we continue deliver investment excellence to our fund investors as demonstrated by our stellar track record in private equity, which now stands with a 39% gross return and a 26% net IRR since our inception when we started Apollo nearly 25 years ago. Importantly, our strong performance has driven almost $8 in cash distributions per share to our shareholders since our IPO.

And lastly, our outstanding investment results have enabled us to raise a significant amount of new capital for a variety of strategies across Apollo's integrated platform. For example, and I have to say, we continue to be humbled by the strong support extended by new and long-standing limited partners for our eighth flagship private equity fund, now the largest in the firm's history at $18.4 billion, which closed at the end of 2013. And this was at a time when raising larger successor funds was proving difficult for many industry participants.

In short, I am tremendously pleased with the progress we've made to date as a public company, but I'm even more optimistic for the future. And I'd like to highlight some of the reasons for my enthusiasm.

First, our integrated investment platform, one that leverages the collective experience of our 300 investment professionals across multiple businesses, we believe provides us with a clear competitive advantage. In addition, our differentiated, value-oriented, contrarian investment philosophy continues to permeate everything we do as investment managers, regardless of where in the capital structure we are investing in our funds' capital.

This point about our investment philosophy is particularly important since it may be as relevant as it's ever been in today's market environment, where private equity valuations remain elevated and credit is priced to perfection with yields near historic lows.

Since we announced the close of Fund VIII, there have been some questions in the marketplace around our ability to invest this fund in the current market environment. Our view is that, just as we have done throughout all market cycles since Apollo's founding in 1990, we are remaining disciplined and patient as we pursue more idiosyncratic, off-the-beaten-path opportunities where we can leverage our deep sector knowledge and our credit expertise to capture value on behalf of our investors. Currently, these opportunities are presenting themselves most evidently within 2 overreaching investment themes that we believe will persist, not just for a few quarters, but for many years.

The first opportunity is the massive capital investment needed in the energy sector, and the second opportunity is the shifting financial services landscape, not only in Europe, but here also in the U.S. With these themes and other investment ideas in mind, we are actively investing and building the pipeline for our new private equity fund utilizing our 3 deployment pathways: one, corporate carve-outs; two, opportunistic buyouts; and three, distressed investments. And we remain confident that being armed with long-dated, locked-up capital to take advantage of these long-term opportunities will accrue to the benefit of all of our investors.

The next area I'd like to emphasize is our credit business. While private equity has always been core to Apollo's franchise and will continue to be, deep credit analysis has been fundamental to our investment strategy, and we have oriented the firm this way since day 1.

Many of you know that when I founded Apollo back in 1990, we initially managed capital for the Credit Lyonnais bank, with a broad mandate to invest up and down the capital structure in both equity and debt throughout differing economic cycles. Fast-forward to today, and credit is our fastest-growing business segment with over $100 billion in AUM across a variety of unconstrained credit products that span the liquidity and yield spectrum. The growth in our credit business stems from our ability to capitalize on opportunities arising from the financial crisis and also the subsequent regulatory changes affecting the capital markets coming out of the financial crisis.

There has been a wide variety of highly compelling opportunities for firms like Apollo due to the fallout of traditional providers of capital, which have either gone out of business or have been forced to scale back their operations significantly. In addition, as traditional financial institutions have come under pressure to reduce headcount and shed non-core businesses, we've been able to build new businesses and acquire specialized teams of talented professionals, which have complemented our expertise in non-core industries. For example, within the last few years, we've hired dedicated teams in energy mezzanine and emerging markets' corporate debt, among others.

We have a deep understanding of the challenges in our LP space in trying to meet target return thresholds, typically in the 7% to 8% range for pension funds. And we have built our business, in part, to provide customized portfolio solutions for them. We now manage more than $14 billion of our clients' capital through strategic managed accounts, including $900 million in 2 new mandates that we'll fund in the second quarter. One is a $500 million account from a large state pension fund, and the other is a $400 million account from a large sovereign wealth fund.

Generically, the mandates are focused on yield and opportunistic credit investing. These highly-customized, solutions-driven accounts leverage our expertise in unconstrained credit and aim to meet investment objectives that extend beyond traditional fixed income.

Just as we have developed a private equity investment strategy focused around 3 pathways that enable us to traverse market cycles and deploy capital, our approach to building our credit business has also been to assemble an extensive toolkit which will enable us to pursue a range of opportunities that span the liquidity and yield spectrum to address the risk and return needs of our clients.

In fact, our strong relationship with Athene is a powerful example of how our capabilities on the yield end of that spectrum have grown over the past few years. We believe that by marrying Athene's world-class insurance capabilities with Apollo's world-class asset management and other service capabilities, the end result is a compelling and differentiated insurance company business model. And as we've done since inception, we continue to support Athene's growth strategy as demonstrated more recently by our assistance in helping the company raise more than $1 billion of third-party equity capital from some of the world's most prominent institutional investors.

The last area I'd like to highlight today relates to realizations. At a conference in the spring of last year, I was somewhat infamously quoted as saying that we were selling everything that was not nailed down. Here, at Apollo, since then, it's no secret we've been very active in monetizing the existing investments of the funds we manage, but even I didn't foresee the remarkable pace of the activity to come.

To put some figures around it, we've returned approximately $38 billion of capital and realized gains to our fund investors over the past 2 years, including more than $22 billion in private equity in the last 18 months. The activity over the past 18 months alone has driven nearly $6 in cash distributions per share to our shareholders. So the question now is, what's available for potential future realizations within our funds' current PE portfolio? At the end of the first quarter, the fair value of our PE funds was approximately $22 billion. It's worth noting that the average fair value of our PE portfolio, on a quarterly basis since our IPO 3 years ago, has been approximately $25 billion. So despite the robust realization activity we've seen over the past 1.5 years, the combination of value creation and new investment activity has provided a meaningful offset over time.

While there will certainly be quarterly fluctuations in the level of the portfolio because of the various stages in the investment process, i.e., deploying, growing and harvesting, we don't believe all -- it doesn't always happen at the same time and at the same pace. Despite that, we believe this is a continuous cycle that is repeatable over the long term.

For now, in terms of harvesting, we intend to remain active in capitalizing on market conditions as appropriate. Given our capital markets insight across the Apollo platform, we believe we are well positioned to take advantage of debt and equity opportunities as when those permit. Furthermore, when you couple our relatively mature private equity portfolio with other components of the firm, most notably our growing and scalable credit business that's generating more cash today than it has at any point in our history, we believe the result is an even more compelling distribution story.

Before I turn the call back over to Gary, I just wanted to take a step back and highlight the big picture that we never lose sight of here at Apollo. We've worked very hard to build a truly global alternative investment management firm with an outstanding brand and investment track record. The delivery of our strong performance to investors, coupled with the favorable secular tailwinds in our industry, including the search for yield, increasing allocations through alternatives, consolidations of GP relationships and the shifting financial services landscape, all play to the strengths of Apollo.

As we're sitting here today, we've recently reloaded our dry powder in private equity with our largest fund ever. Our credit business continues to scale with the positive impact of Athene. Our earnings mix continues to evolve in favor of the Management Business, and the strength and continuity of our team is firmly aligned with the interest of our investors.

In summary, we believe we are well positioned to capitalize on the range of opportunities that are in front of us. As we continue to grow our ever-expanding footprint across the alternative landscape, we expect our fund investors and shareholders to benefit for many more years to come.

With that, Gary?

Gary M. Stein
Head of Corporate Communications

Thanks, Leon. I'd just like to spend a few minutes reviewing some of the highlights across our business segments.

Starting with private equity. The funds maintained a strong pace of realization activity in the first quarter, which resulted in aggregate distributions of $3 billion of capital to our fund investors. In the process, we earned nearly $400 million of realized carry in private equity, which is the primary driver of our $0.84 cash distribution this quarter.

Specifically, these realizations were driven by numerous transactions, including secondary and/or block share of sales of our funds' remaining interest in Constellium, as well as some of our funds' interest in Athlon, Berry Plastics, Noranda Aluminum, Norwegian Cruise Lines and Rexnord.

Following these transactions, the funds we manage held the following: Funds V and VI collectively held 21.9 million shares of Berry Plastics; Fund VI held 20 million shares of Noranda, 35.9 million shares of Norwegian Cruise Lines and 36.7 million shares of Rexnord; and Fund VII held 37.7 million shares of Athlon.

In addition, there were 2 realizations that were announced towards the end of the first quarter that closed just after quarter end, including a secondary of Sprouts Farmers Markets and the IPO of Brit PLC. Following these transactions, Fund VI held 37.7 million shares of Sprouts, and Fund VII held 116.9 million shares of Brit.

At the end of March, 58% of the $22 billion of fair value in the private equity portfolio we manage was held in publicly traded securities, leaving our funds well positioned for continued realizations on an opportunistic basis, as Leon just noted.

Regarding capital deployment within our private equity funds, activity moderated in the first quarter from the level seen in the fourth quarter of 2013, largely due to lower levels of follow-on investment activity. That said, first quarter activity was driven by the announcement and close of the acquisition of CEC Entertainment, a public-to-private opportunistic transaction of a nationally recognized leader in the family entertainment space.

So far, in the second quarter, we've announced and completed an investment in Caelus Energy Alaska, a new exploration and production company focused on Alaska oil and gas assets, formed in partnership with a talented veteran management team. Apollo funds have the opportunity to invest up to $1 billion in Caelus in the aggregate to develop the company's existing assets and to pursue acquisitions in Alaskan oil and gas market.

PE fundraising activity in the quarter included a $325 million closing for AION, our value-oriented India-focused joint venture fund with ICICI, bringing total fund commitments for AION to $700 million through quarter end. And we just held a final closing for this fund, bringing total commitments to approximately $825 million, positioning AION as one of the largest India-focused funds to date.

Turning briefly to our credit business. At the end of the first quarter, we continue to have more than $100 billion of AUM and credit, which includes $49 billion related to Athene, and that's exclusive of the amounts that are sub-advised by Apollo; nearly $24 billion in U.S. performing credit; $12 billion in structured credit; nearly $8 billion in opportunistic credit; and more than $8 billion in European credit strategies.

As Leon discussed, our credit franchise provides us with a powerful platform that enables us to offer our clients a broad range of unconstrained credit solutions to meet their needs across the risk/return spectrum. During the first quarter, fundraising activity of more than $1 billion within credit was driven by the $550 million final close of our second Financial Credit Investments fund, which is focused on insurance-related investing. This brings total fund commitments for this fund to more than $1.5 billion, nearly triple the size of our first fund that was raised just 2 years ago.

Credit fundraising was also bolstered by commitments to several other credit funds totaling approximately $500 million in aggregate.

Importantly, we remain active in deploying capital in a variety of differentiated credit investment opportunities. We provided several new disclosures within our press release this quarter, including dollars invested and uncalled commitments for our credit and real estate segments. These new disclosures highlight a particularly strong quarter for credit deployment among our drawdown-type funds as several funds, including EPF II, FCI II and COF III completed value-oriented opportunistic transactions.

For historical context, from 2010 through 2013, the credit funds we managed deployed approximately $2.1 billion per year, on average.

One transaction I wanted to highlight from the first quarter was EPF II's acquisition of a minority stake in Altamira, Banco Santander's real estate servicing and property management platform in Spain. This transaction is notable for a few reasons.

First, it's illustrative of how our funds are positioned to capitalize on the significant opportunities to acquire attractive assets and businesses across Europe. Second, it demonstrates the unique benefits of our integrated model and how we can leverage the synergies that exist between our credit and real estate platforms.

Turning now to real estate. We remain active in real estate debt. And during the first quarter, the funds we managed deployed approximately $400 million in first lien mortgage loans, mezzanine loans and CMBS.

On the equity side, we remain opportunistic across property types and geographies. Approximately 70% of our U.S. private equity real estate funds' base capital is now committed. And in Europe, our joint venture with Ivanhoe Cambridge in prime residential has grown to more than $500 million of invested capital with the recent purchase of 2 multifamily assets. Additionally, our commercial mortgage REIT, ARI, just raised approximately $150 million of additional equity last week.

With that, I'll turn the call over to Martin to discuss our financial results.

Martin Kelly
Chief Financial Officer

Thanks, Gary. And good morning, again, everyone. Starting with our cash distribution. The $0.84 per share that was declared for the first quarter includes our regular distribution of $0.15 plus $0.69 of other cash earnings. The additional amount above our regular distribution was primarily driven by carry and from the sale of equity and debt investments held by our funds.

Turning to our Management Business. For the first quarter, Apollo's Management Business earned $152 million of ENI versus $113 million in the fourth quarter of 2013. The quarter-over-quarter increase was mainly driven by an increase in advisory and transaction fees, which were up $61 million, primarily due to a $28 million termination payment related to the EP Energy IPO, a $12 million transaction fee related to co-investments in connection with EPF II's acquisition of Altamira from Banco Santander, as well as an increase in the monitoring fee that we received from Athene, which I'll discuss further in a moment.

Turning to expenses. First quarter compensation costs were sequentially higher, primarily due to a noncash expense of $45.6 million in connection with the accelerated vesting on equity-based compensation related to our former President. This equity amortization expense was allocated across segments with $18 million of private equity, $23 million of credit and $4.5 million in real estate. In total, the onetime expense amounted to $0.11 of pretax ENI during the quarter.

Nearly offsetting the increase in compensation costs was a $40 million decline in non-compensation costs, which was primarily driven by a particularly light quarter of fund formation costs following an elevated level in the fourth quarter. Going forward, we will continue to strategically invest in the business by adding talent and capabilities to facilitate additional growth. And as we achieve an increasing amount of scale, we expect our margins to benefit over time.

Turning to our Incentive Business. In terms of the performance of our private equity funds, our private equity portfolio appreciated by approximately 2% during the first quarter, which was driven by 3% appreciation in publicly traded portfolio holdings and 1% appreciation in private holdings. This performance follows a strong fourth quarter, which saw the portfolio appreciate by 9% and a particularly strong 2013, which saw the portfolio appreciate by 49%.

Regarding portfolio company performance, the aggregate revenues for the Funds VI and VII portfolio companies were up 4.5% for the rolling 12-month period ending March 31, 2014, compared to the 12-month period ending December 31, 2013, while EBITDA was up by an estimated 1% over the same period.

Looking at the year-over-year comparison, aggregate revenues were up 4.3% for the 12-month period ending March 31, 2014, compared to the 12-month period ending March 31, 2013, while EBITDA was up by 2.4% over the same year-on-year comparison.

You may have noticed that our profit sharing expense ratios within the Incentive Business were elevated in the first quarter. This is driven by 3 items.

First, as we have noted in prior quarters, there was a discretionary incentive pool compensation accrual in the quarter of approximately $12 million within the Incentive Business. As a reminder, this incentive pool is separate from the fund level profit sharing and serves to incentivize certain partners and employees. The incentive pool tends to be more stable in nature and does not fluctuate with the level of unrealized carry in a given period, but rather is based on the carry performance of the business on a realized basis. So in periods like the first quarter where portfolio performance is more muted, particularly in PE, the incentive pool accrual within the overall profit share ratios is more pronounced.

The second driver relates to nuances around which funds drive carry earnings in any given quarter. In our PE segment, while our long-term blended profit share rate can be in the 40% to 45% range, excluding the incentive pool I just described, each fund has its own profit sharing percentage that may be above or below that range. During the first quarter, Fund VII appreciated while Fund VI depreciated, which contributed to the elevated profit share ratio.

The third driver relates to a modification in our approach towards incentive compensation within our credit segment. We are more closely aligning total compensation for investment professionals with the profitability of the credit business as a whole rather than on a fund-by-fund basis. The result of this change created a $16 million catch-up in our first quarter results. Going forward, we expect the profit share ratio in our credit segment to be close to our private equity business.

Moving on to taxes. Our first quarter effective tax rate on ENI was 19%. Recall that our ENI tax provision calculation assumes full share conversion and reflects the relative earnings contribution of our management and incentive businesses, which continues to evolve with the growth of our fund. Additionally, we made a revision to the calculation of our income tax provision during the first quarter, which also resulted in modest revisions to prior periods.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter.

First, the percentage of Athene-related assets invested in Apollo-managed funds was approximately 17% as of March 31, 2014, which is slightly higher than December 31. As we've stated previously, we expect this percentage to increase gradually over time, provided that we continue to perform well in providing asset management services to Athene and also identifying appropriate and attractive opportunities to redeploy their investment portfolio.

Next, Apollo has been receiving and will continue to receive payment of monitoring fees on a quarterly basis through the end of 2014. For the first quarter, this fee was $59 million, which included a $7 million catch-up that is not expected to reoccur. As a reminder, while this fee is additive to ENI, it is currently being accrued as a noncash item.

Subsequent to quarter end, following the close of Athene's private placement, a portion of Apollo's accrued interest in Athene, which primarily related to the quarterly CNS fee that we had accumulated through year end, was settled in shares of Athene. Including the CNS fee we earned in the first quarter, we now have approximately $200 million of additional investment value on our balance sheet, which is not yet included in the $557 million of balance sheet investments highlighted in our press release. Note that this amount excludes the $121 million AAA gross carry receivable at March 31 that we expect to be paid in shares of Athene at a future date.

As it relates to the expected CNS fee for the remainder of the year, this fee will be settled in additional shares of Athene based on its valuation at the end of each quarter in arrears, and will appear as incremental value on our balance sheet.

One final note. As Gary alluded to earlier, we added several new disclosures in our press release this quarter, including carry-eligible AUM and carry-generating AUM, among others. We hope that you'll find the presentation of these additional metrics helpful as we continue to evaluate our business.
With that, we'll turn the call back to the operator, and open up the line for any of your questions.

Question and Answer

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Martin, maybe first question for you. Just when we think about the distribution outlook, and I think the base of the question is more given the shift in the credit business and how significant that business is versus, say, 1 or 2 years ago. But when we look at the capital that's in the ground, the distribution or the exit activity, is there some sense or some way, when you look at the fee earnings or the investment income and then the portion of incentive income that's being driven by interest dividends, that you can look at it as somewhat like a core run rate, assuming a fairly decent backdrop versus maybe what we experienced last year, where a lot of it was being driven by private equity, and as that moderates, just the shift in credit and what can mean for the distribution outlook?

Martin Kelly
Chief Financial Officer

Sure. So the growth in credit is driving both an increase in -- we expect it to continue to drive an increase in both the management fee earnings as well as the incentive company. And so, within credit, there's different components. The yield-oriented funds should generate stable and steady management fees, which will drive up the management fee cash earnings and distribution. And then, the drawdown funds, or the promote funds within credit, which are focused on the European distressed credit opportunities, the insurance business and others, will be a little similar to PE in that they'll be episodic, but over the longer term, they'll increase. So the way we think about it is, with rising credit, it drives both. But we need to look at the segments within credit to really think that through.

Gary M. Stein
Head of Corporate Communications

Yes. Mike, I would just add. If you look on Page 19 of the press release where we break out the carry receivable, you can see the credit funds broken down by strategy. And it's interesting to note that the carry this quarter was pretty evenly spread across the 5 different strategies we break out here with strong realized carry coming out of non-performing loans as we harvest out of the first non-performing loan fund, but also saw strong realizations out of the performing credit bucket as well. So I think you're seeing the carry spread across the various segments in credit, as Martin noted.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay, that's helpful. And then, maybe just as a follow-up. Leon, thanks for some of the color on what you guys are seeing in the market. I think the one challenge that I think a lot of people have right now is when you look at the credit business -- and this is not just for you guys, but for the industry, there's a lot of structural trends that are like pushing money in that direction, whether it's allocation shifts, demand for yield. But on the flip side, you guys have said, and others have said it, that the market is still relatively frothy. So I think when we look at the overall credit business, and you look at, like the products or the assets where you can go after some of those opportunities that are more niche-y that you mentioned versus areas that you might be holding back and waiting for more distressed opportunities, just wanted to get a sense of what is that mix where you can be active in the current backdrop, but there's obviously going to be a pool that you can be more active when you get better opportunities?

Leon D. Black
Founding Partner, Chairman & CEO

Yes. Look, I think that going back to when we began Apollo 24 years ago, we've tried to create a nexus between our PE and our credit businesses, and we've done it on a basis of being value-oriented. What does that mean? It means we like to buy good assets, good companies, good securities at a very good risk/reward. In PE, we've been able to do that by developing multiple pathways to stay disciplined about value and not be in the mix of where most of our peers are, which is paying a 9.5x EBITDA multiple. We created our funds at 2 or 3 multiples lower by creating multiple pathways. And those pathways have included playing cycles well, during economic downturns, through distress. It's also been something we've done through preferring to deal with complexities, where others really aren't that involved, and it's less competitive, and we do a lot of corporate carve-out. And finally, even our buyout business is very idiosyncratic, whether it's Hostess' Twinkies or it's buying McGraw-Hill Education in a busted auction. Likewise, that's our approach in credit. When you look at the yields today for investment grade and how much there is a -- had been a flight to safety, and you look at where senior loan market has been, and you look at where the high-yield market has been, they're really at historic lows. And what we've tried to do in building our credit business, which is now over $100 billion, is to create, if you will, a Chinese menu of different products across the yield and liquidity spectrum. We don't want to give up safety. But by going more complex, by being more illiquid in a lot of different types of product, we think that we can generate a real premium to the investment grade, more liquid cycle. And that runs across a lot of what we're doing, whether it be everything we're doing in origination today, whether it be in the energy sector, in the health care sector. And it also has to do with a lot of our products like COF III, as you know, which goes into distress. It goes into leveraged loans. It goes into CLOs. What we're trying to do is find a lot of different products, which are still very safe, but where you can command real premiums in the high single digits for some, in the low teens for others, and even in some European and non-performing loans, even into the high teens. And as with private equity, our view has always been we don't have a crystal ball. We can't forecast what the future holds. The key is to have a model, an operating model and a spectrum of products and pathways to also risk/reward in our favor whether it's in private equity or it's in the credit spectrum. And that's what we've been doing.

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

Yes. So to hit it directly -- it's Josh Harris. The overvaluation of the market that you're talking about is really in liquid-rated underwritten product. So we're tending to gravitate much more towards illiquid, unrated, directly-originated product. The other thing I would say is that Europe -- there's a lot going on in Europe, and there's some diamonds in the rough in Europe. And so, Europe tends to be lumped together in some cases. We're also finding value Europe. So that's the way I would characterize it more broadly. There's still -- even though the market is broadly overvalued because of the excess liquidity, if you're able to sort of deal with complexity and aggravation, as Leon mentioned, you can kind of find some good value in there.

Operator

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

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

Great. Just, Leon, just on the same theme of complexity and aggravation, and I guess carve-outs, how do you see the M&A landscape shaping up, particularly for putting out capital from your private equity fund in the U.S.? Do you expect that we should see some more M&A activity from U.S. corporations and maybe carve-outs sort of a complement to that activity? Is that something historically that you've seen, and then maybe you'd expect going forward?

Leon D. Black
Founding Partner, Chairman & CEO

I believe that it's challenging today and less than robust in terms of traditional PE. I mean, mostly, that's because of easy money that's out there, historically low rates, back to one of the highest levels of covenant-light on the lending side. And this has really tended to keep valuations very high for traditional or competitive auction product. It's because of this that I'm very, I guess, happy that we've developed the operating model we have and that our team is used to having to look elsewhere in terms of what they're doing. If you look at the 3 deals we've done this year, which aggregate about $1 billion that we've put out, between a gaming, American Gaming, between -- I never get it right, it's Caelus or Caelus Energy in Alaska -- Caelus or Chuck E. Cheese, we've been able to find things that are in the 6 and 7 EBITDA multiple. We have a lot of other things in our pipeline in those same ranges, and we're tending to stay away from the more competitive products out there because it is quite high right now, in general. And the last thing I'd say is that there are areas, as I mentioned in the prepared talk, that maybe Josh can speak to also, in the consumer areas, especially, and in energy, whether it be upstream or downstream or midstream opportunities. And finally, in the financial sector where the delevering, massive delevering, still goes on in Europe. And there are opportunities here that's come out of that. Those are areas that are still pretty fertile. I don't know, Josh, do you have anything to add?

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

No. I was just going to add that in terms of corporate M&A, which I think you asked about, corporate profit margins are recovering. They're, at this point, 10%. M&A is recovering. It's certainly below the peaks than where it was. And so, you are seeing kind of a recovery in M&A, although it's not looming. So I mean, what you've got going on is that corporations are delevered. They're earning money. The monetary authorities have signaled that they are prepared to continue to put a lot of liquidity into the market, and growth is picking up, and people are feeling pretty good. So that's -- this is the part of the cycle where -- and the corporate M&A picks up. I don't think that -- I think corporate carve-out tends to be 20% or 25% of our business, or 15% to 25% of our business year in and year out. And so, I don't know that the fact that corporations are buying more companies is going to really lead to -- that just tends to be the ebb and flow of corporate carve-out. So it's like a great robust environment for corporate M&A. That's not always as good for leveraged buyouts because of the easy money environment we've got today. That tends to impact leveraged buyouts a lot more expeditiously, a lot more strongly.

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

Okay. And then, I guess, this question kind of for Martin, but also just philosophically the -- just in terms of the profit share, I guess if we look at Fund VIII and think about, I guess, the philosophy for profit sharing, I mean, is this -- should we be thinking for current funds and in the future, more sort of equity-based compensation or compensation that reflects more sort of overall profitability rather than more direct interest, if you will, in individual funds or strategies?

Martin Kelly
Chief Financial Officer

Yes -- so yes. Yes on both those questions, Marc. I think for Fund VIII the construct is to align the individuals with the performance of the fund overall, not just investor stock. There's a similar construct in the new credit plan that I mentioned. So we think that, that aligns shareholders, employees and the fund together in the most appropriate manner.

Operator

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

William R Katz
Citigroup Inc, Research Division

I'm still curious, I guess, yesterday or a day or so ago, the SEC's Office of Compliance gave, what I would argue, was a relatively scathing review of some examinations they've been doing over the last couple years for the private equity business. I was just wondering if you -- they seem to take each line item to task. I was wondering if you could talk a little bit about the regulatory landscape and how Apollo might be positioned, and what kind of risks or opportunities that might be associated with that?

Martin Kelly
Chief Financial Officer

Bill, it's Martin. Let me start that. Firstly, on the SEC review, before I move on to the other question, our understanding of the primary issue there is that it's a question of transparency of fees and expenses to our investors, rather than the practice itself. We are committed to providing our investors with complete transparency. And we believe that our disclosures and our communications with our LPs represents best practice in the industry. And we're not concerned about it. Few things I'd note. One is we have been a registered advisor since 2007. And on the fee side, we meet frequently with the advisory boards of the funds that we manage, comprised of ERPs, and provide detailed information. And then, we have a robust process for looking at expense allocations and approving that internally. In terms of the comment around valuations, I'm not sure what exactly that's getting at, but we have an established valuation process and committee structure, and we validate that valuation externally. And ultimately, all compensation that's paid out of the incentive company is paid on a realized cash basis versus a mark-to-market basis. So that, I think, addresses the SEC comments in the last couple of days. More broadly, we welcome regulation for the reason that we think it differentiates the larger established funds with a solid infrastructure and governance from others that don't. And on the opportunity side, business side, it opens up the opportunities for us to grow our business where others are stepping back.

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

Yes. I mean, to fill in where -- it's Josh. To fill in -- I mean, obviously the massive regulation of the banking sector is, in essence, creating significant opportunity in credit for firms like Apollo and its institutional clients to step in, in many of the illiquid areas, non-rated areas directly originated areas. And so, that regulatory climate, as the backdrop, is facilitating a lot of the growth in credit right now and leaving a void. And it's a void that we're comfortable stepping into. I think, it also has the benefit, systematically, of spreading risk out. And so, I think that's something that is recognized by the regulators as well. So I think that's the genesis of probably the biggest opportunity we have across our platform.

William R Katz
Citigroup Inc, Research Division

Yes, it's helpful. And this is a sort of follow-up, just looking at the math. The realization story still seems to be quite good, which is putting some downward pressure on fee-paying AUM and then your asset gatherings. It's being tough to sort of comp up against the Fund VIII. So as you look at over the next 12 to 24 months, what's going to be the key to get the fund -- fee-paying AUM growing again?

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

Credit, credit, credit. I mean, I think the big opportunity we have is that our institutional clients really are starting to recognize that the investment-grade markets, the high-yield markets, the tradable markets, the government markets, the mortgage markets are basically overvalued. And that the illiquid, more idiosyncratic, non-rated, directly-originated markets that we're playing in are providing the best risk/return. The equity markets are aggressively priced. The private equity markets are very aggressively priced, and the credit markets are very aggressively priced, the traded credit markets. So if you're a pension fund, if you're a sovereign wealth fund, if you're a high net worth individual, you're looking for a place to hide in what is otherwise an overvalued environment. And sort of illiquid, opportunistic credit is really the, in my opinion, the best opportunity in the world right now. And so, that -- there's a lot of money. Once you start to look at -- once institutions start looking at their fixed income buckets, the -- which are 4 to 5 -- 4 to 6x the size of their alternative buckets, and then begin to move those buckets down to move into alternative credit, we have enormous growth opportunity. And so, I do feel very optimistic that we'll be able to raise a lot of capital going forward in the next few years. Clearly, comping up against an $18.5 billion fund, that's a great number, and you're right.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

First question just kind of a big picture question for you. If you think about where the business is today, and it's obviously evolved quite dramatically over the last 10 years. But if you look at it and you kind of think about the market environment and maybe what some of the peers might be doing, are there any capabilities or strategies that you guys kind of look at that say, hey, maybe that's something that Apollo should get into in a bigger way or we should perhaps enter that area? And how do you think whether -- how you are positioned relative to competition really influences any of that thinking at all?

Leon D. Black
Founding Partner, Chairman & CEO

Sure. Look, right now, and actually since the early '90s, we've been in 3 businesses. We've been in PE, we've been in credit, and we've been in real estate, and we've really stuck to our knitting over 24 years in those areas. If I were to assess them, I'd say we're best-in-class today in private equity. We've kind of delivered returns that are twice the top quartile pretty consistently, and I think we have a differentiated story there. And we have a big new fund. But I don't think that that's terribly scalable. I do think it's going to continue to be highly profitable. If you look at Fund VI, the remainder of it is 70% public in terms of the portfolio makeup. And if you look at Fund VII, it's over 60% already in public position. So you'll see continued realizations there as long as the public markets continue to cooperate. And we'll be receiving with $18 billion of new capital. Frankly, the challenge there will be a to stay best-in-class. Then you look at credit. And again, this is kind of been in our DNA going back to all the founders' roots from Drexel, from when we started with Credit Lyonnais, managing a high-yield portfolio for them, doing distressed, managing senior loans. And we fast-forward today, and that's over $100 billion of AUM with a dozen different products now that we're managing. I guess our partners here -- as we've put a better and better and stronger team in place and we look at the world, and we look at the secular changes that have gone on which, frankly, have really all been in our favor, we don't see any reason why that can't be a large multiple, frankly, of where we are today, at $100 billion. And clearly, that's through all the different products we've been developing, the teams we've put together, the needs of, as Josh pointed out, the pension fund world, the need for returns and yields, our strategic alliance with Athene, all of that is extremely promising. And then, we look at real estate, and I'd say that that's an area we also see an awful lot of promise. I look at what our brethren at Blackstone have accomplished, my hat is off to them. We'd be happy to be a young cousin to them, and we think there is the opportunity to do that. So we think that given the strength and team and strategy we have in private equity, again the team, the secular trends and the scale of opportunity in credit, and then some real upside in real estate going forward, we're very happy with where we're positioned today.

Operator

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

Yian Dai
Keefe, Bruyette, & Woods, Inc., Research Division

This is Anne Dai, standing in for Rob Lee. I just have 2 quick questions on credit. So I was taking a look at the carry-eligible AUM versus carry-generating AUM disclosure that you guys provided and thank you for that, it's very helpful. Would you be able to give some color on which funds make up the difference between carry-generating and carry-eligible AUM within that segment? And also, related to credit fundraising, just looking at your emerging markets debt platform, are there certain markets that look especially attractive in today's environment? And what do you think the size of the opportunity is there?

Martin Kelly
Chief Financial Officer

Well, Anne, let me address the first question. The difference between carry-eligible and carry-generating within credit itself is actually spread across a variety of funds. It includes EPF, but it also includes quite a number of other drawdown-style funds. And so, EPF is the largest piece of it, but there's many other [indiscernible] to that difference. Fund VIII is the obvious large difference between the 2 within PE. And then, in addition to that, there's $4 billion of dry powder in funds that are already in carry, but that dry powder has the potential to become carry-generated at some point.

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

In terms of emerging markets, we're just getting started, but we've hired -- we've partnered with a highly skilled team. Emerging markets today are being severely impacted by the tapering that's going on here in the U.S. and particularly those markets that have been running current account deficits and budget deficits. But the market tends to paint these things with a broad brush and there are misvaluations going on. We're probably not going to speak specifically about which markets we're looking at, but we see it as a highly scalable opportunity where we have a great team and where it plays to our strength of unearthing opportunities where there's real volatility. And the market tends to paint with a broad brush macro versus micro with credit analysis.

Yian Dai
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And just a really general follow-up on fundraising. Understood that a lot of the strength in fundraising is going to come from credit in the next -- in the short term. But is there a way to size the opportunities for fundraising in maybe the next year or so, just kind of relative to how strong the fundraising was in the last couple of years in the context of your strategic goals, and how much dry powder you have in current market demand?

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

Yes. We try not to give forward-looking estimates like that. So unfortunately, we have to politely decline.

Operator

Our next question comes from the line of Chris Kotowski of Oppenheimer & Company.

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

Yes. At the outset, Leon highlighted 2 big overarching themes: energy and the changing financial services industry. And I wonder if you could flesh that out a bit more. And in particular, on the financial services, are you talking about buying assets out of financial institutions or buying whole businesses? And I guess, what I have in mind is, today, you see an announcement from Barclays that they're getting rid of $90 billion of RWAs from the -- from FICC and other detritus of their financial crisis, but they're also getting rid of their European retail business. I mean, would you be interested in either or both? Or is that the kind of thing you're thinking about?

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

Yes. We're not going to obviously comment on specific transactions, but the bottom line is it's all of the above. In other words, Gary talked earlier about a transaction we did with Santander, where we acquired their servicing platform, and that's clearly a business. And we've definitely acquired other consumer lending businesses from banks, particularly in Europe, in Spain, in Ireland, and then leverage those businesses to buy other loans. There's also a huge volume of both performing and non-performing loans coming out of the banks, particularly in Europe, again, relative to consumer receivables, relative to mortgage loans, relative to commercial loans, and so -- relative to shipping loans. And so, again, we're also acquiring loans. So the banks are -- they are trying -- we're trying to solve problems for the banking sector. And it's everything from reg cap trades to loans to businesses, and so the idea is to set up the capability to absorb whatever the banking sector needs you to buy. In order to do that, you need special expertise. You need servicing. You need the ability to analyze thousands of loans. And so, we're set up to absorb whatever is needed. And we are going to look at everything that comes out, and clearly we have very good relationships with the banking sector. In terms of the energy sector, particularly here in the

U.S., the U.S. shale renaissance has created literally over a $2 trillion capital need here in the U.S. where there are very high IRR, return on assets, ability and there's just not enough capital and expertise to be able to exploit it in the short term. And if you think about the S&P energy sector, it's less than $2 trillion, the entire market cap of that sector. And so, even for companies that are as large as the integrated oil companies, they're having to not pursue IRR opportunities as great as 25% or 30% because they just got too much other capital need at higher return. And so, the crumbs that are falling off that table in the upstream energy sector here in North America, as the U.S. goes -- as the U.S. and Canada go from being higher cost producers of gas to the lowest cost in the world, where literally you're competing with people like Qatar and Saudi Arabia; and in oil, you're going from very, very high cost to the middle, that's creating an enormous opportunity. And PE -- those PE firms that have set themselves up with teams of scientists, landmen, reserve engineers for the petroleum experts all over the continent, are going to be able take advantage of that opportunity and put a lot of capital to work. And Apollo is very well positioned relative to the expertise we've built up and relative to the size of that opportunity and our ability to take down big opportunities and exploit that. And then, also is the case in terms of lending. There's also a big need for mezzanine debt. In many cases, the midsized oil companies are not able to access the high-yield market because it's very complicated to figure out what their reserves are worth. And so, we can use that same expertise to build a lending business where we can get actually quite nice returns. And so, that is a very large sector where there appears to be a good value even though the overall market is overvalued, as we talked about earlier.

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

And just as a follow-up, on the financial services side, could one, in theory, buy a whole bank in a private equity fund? Or does that automatically make you a bank holding company, which I assume would be undesirable?

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

Yes, you have to structure it. Your ownership has to be below certain levels. And so, you couldn't -- you probably wouldn't acquire 100% of the equity of a bank. You probably want to keep it below certain levels to not be a bank holding company.

Operator

Our next question comes from the line of Devin Ryan of JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Most of my questions have already been asked and answered. But just with respect to the managed account mandates, appreciate the color there. I'd love to just get a little bit of insight around the backlog. I know the mandates can be lumpy, but just if you could characterize the level of conversations there and any other trends, is there any difference between demand for pension funds or sovereign wealth, or is it broad-based? Just some additional color would be helpful.

Martin Kelly
Chief Financial Officer

Yes. So I mean, the color is there is a significant pipeline, and it comes back to the earlier macro trends we've talked about, which is those very large institutions, and in some cases they are pension funds, and in some cases they are sovereign wealth funds, we think the largest institutions in the world are waking up and saying that there's just better risk/return in alternative credit, opportunistic credit, illiquid credit, non-rated credit. And they each -- in cases of very large institutional clients, they're prepared to give you enough capital so that you'll work with them to customize the account from a risk perspective, from a geography perspective, liquid versus illiquid. And so, we are seeing that -- the opportunity play out both in co-mingled funds because in some cases institutions want other investors with them, as well as in the case of managed accounts. And so, it's just another way of facilitating your clients' access to these opportunities which are -- appear to be well-priced relative to other forms of credit and even equity. And so, I would say that the backlog is robust, both in terms of the managed account side, as well as the co-mingled funds side. The managed accounts tend to be larger. I mean, Gary mentioned $400 million one, a $500 million one. That's probably -- if you get too much below that, it becomes real hard for us to make it economic, but we're so much prepared to do that plus, we'll work with them to customize.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Got it. And then, just with respect to the IPO window, which obviously it's been a little bit shaky here in recent weeks. And I know that every investment that you have is a bit unique. But as you're thinking about the pace of realizations, is that concerning you at all? Or do you just think that activity is simply just shifts to the M&A market, assuming M&A remains active here? Just trying to think about how realizations could flow from here and some of the moving parts there, particularly with the IPO window getting a little bit more challenged.

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

Yes. I would say, look, there's no question that the IPO market getting challenging does affect realizations. Now having said that, as Leon mentioned, a large part of our portfolio is already public. And so, therefore, it becomes a matter of -- that's less a focus of the IPO market and more, obviously, the broad equity market. When the broad equity market starts to trend down, that's certainly going to affect returns and valuation and your willingness to sell. Our general view is -- and certainly, the IPO market does limit your ability to take companies public, and that will affect realizations. I think you should be careful not to get caught up on weekly or monthly fluctuation. So I think we're looking at this more broadly, and you have to ask yourself is -- yes, I think, you have to ask yourself more broadly, when is the liquidity going to start to come out of the system? Speaking -- I mean, I think we see that continuing for 12 to 20 -- for a period of time. So we don't -- I don't think we believe that the realization cycle is shutting down or anything. I think it's just maybe not as robust as it was last year.

Operator

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

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Credit, credit, credit. So that's where the growth is coming from. I guess, what's the road map there? Is it about slicing and dicing more finely and launching more focused products? Or is it more about what you've done in private equity since your inception of just raising bigger and bigger and bigger, newer vintage funds and that really drives the growth? And then, really what's the risk? It seems like the demand is there. Is it really the investment opportunities where the risk to success lies?

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

Yes. So in terms of the slicing and dicing, I mean, I'd say that the -- again, there's a broad macro opportunity for alternative managers and credit managers and their clients to step in the shoes of the receiving banking sector as it gets smaller. I think that that's going to play out. There are going to be more -- there are more products in credit than in private equity. So for sure, credit is a lot more nuanced. There's many, many more products. And having said that -- and clients want to access it differently. Some clients are more interested in more idiosyncratic opportunities. Other clients are more interested in yield. And so, you have to be willing to offer clients the ability to play the market as they wish. Having said that, we continue to think that being able to be opportunistic and move in and out of different sectors is where we can really shine the best. And we do explain that to our clients. Some of them want them, some of them don't. But our broad footprint, our broad global footprint, our broad ability to think through all kinds of different credit, whether it be senior debt, mezzanine debt, distressed, bank debt, allows us to move quickly and, in essence, move where the market is providing the best opportunity. And so, I think many,

many clients buy that. And so, we are seeing -- these go anywhere. The most is -- the most high -- the most of our growth is in these go-anywhere credit products, which allow us to do what we do best, which is to maneuver around what the market is allowing in terms of risk/return. In terms of the risk in credit, I think the risk for us as an organization -- I think we're very well positioned with the rightful brand, the right expertise and the right investment culture and the right client base. I think the risk is just execution. We need to keep our discipline. We need to keep doing what we're doing. There's more growth. For us, our ability to grow is limited not by our ability to get money. Our ability to grow is limited by our ability to execute and achieve good returns for our clients. So we need to keep focused on risk/return and doing -- and putting in and making good investments. And that is a daily -- every day we come to work and think about that.

Operator

Ladies and gentlemen, we have reached our allotted time for questions. Our final question will come from Patrick Davitt of Autonomous.

M. Patrick Davitt
Autonomous Research LLP

On the strategic accounts, obviously, it's gotten to be a larger portion of your AUM and probably will continue to be. Could you talk a little bit about the mechanics of that? Does having such a customized account create a need for more professionals per dollar of AUM? Or is it more about as deals come through your current strategies, if it makes sense for a certain account, it just gets a piece of it?

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

Yes. I don't think -- I mean, there is -- certainly, there is some complexity in structure in these things in terms of different allocation methodologies and geographies. But once you've done a bunch of these, they become relatively -- there's only so many things you're going to have to tackle. And so, I don't -- I think that -- I wouldn't worry about adding, like, too many added professionals to be able to manage this. I mean, I think our business is generally complex and -- but I think our platform is well situated to handle it. So that's the way that I would answer it. I forgot the other part of your question.

M. Patrick Davitt
Autonomous Research LLP

I think that answers it. I guess, the other part really was, so in a lot of cases, I would imagine that you have your strategies, you have your professionals in those strategies. And as they source deals, if a deal makes sense for a certain account, they make a piece of that deal, even if it wasn't being sourced particularly for one account.

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

Exactly. We're very careful about allocation, policies. We've spent a lot of time on it. And clearly, if there are overlapping mandates, it's allocated appropriately and quantitatively and objectively based on a process that is very transparent to our investors. And it's an issue, obviously, that investors want to hear about, and we explain it very carefully and follow a process.

M. Patrick Davitt
Autonomous Research LLP

Great. And then, just finally, you mentioned a couple of realizations that closed post 1Q. And as you have in the past, can you kind of give us an update of where the booked realizations per share are at this point?

Martin Kelly
Chief Financial Officer

Sure, Patrick. The amount is $0.11 per share from both those transactions that we highlighted in the prepared remarks.

Operator

This concludes the question-and-answer session. I will now turn the call back over to Gary Stein for any closing or additional remarks.

Gary M. Stein
Head of Corporate Communications

Great, thanks. On behalf of everybody here at Apollo, thanks very much for joining the call today. And as we said earlier, if you have any follow-up questions, please feel free to follow up with Noah Gunn or myself. Thanks very much.

Operator
Thank you. This concludes today's Apollo Global Management's 2014 First Quarter Earnings Conference Call. You may disconnect your lines at this time, and have a wonderful day.