CONTENTS

Apollo Global Management, LLC NYSE:APO

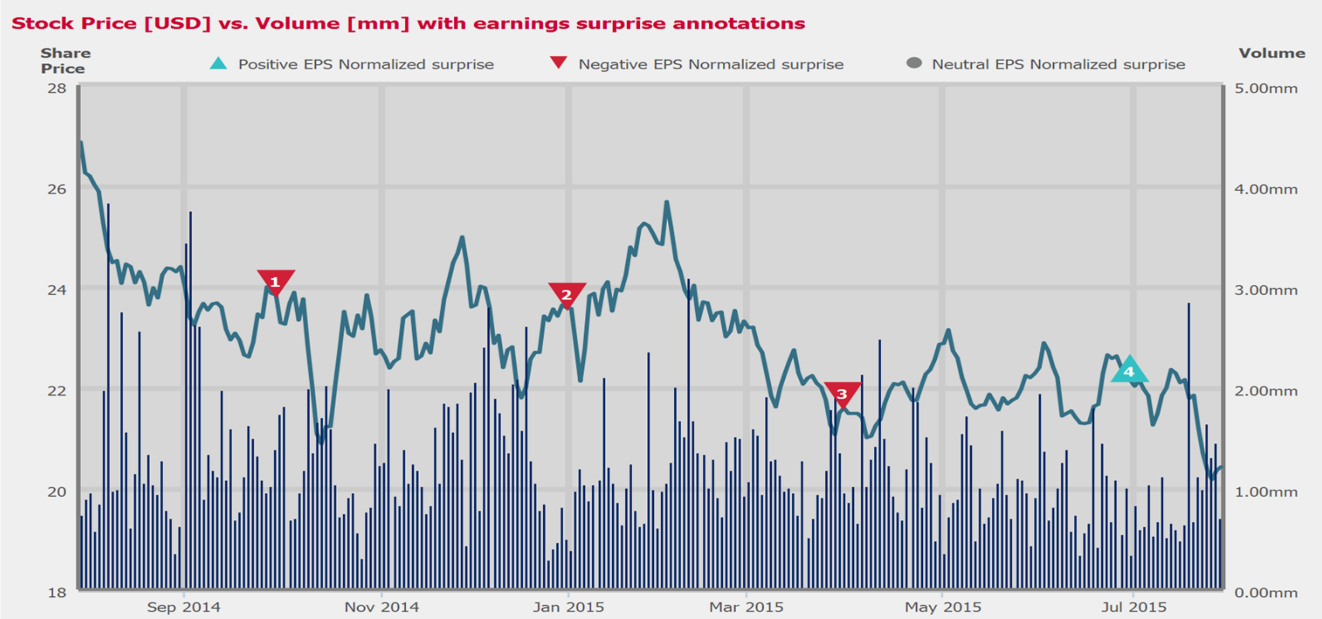
FQ3 2015 Earnings Call Transcripts

Wednesday, October 28, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.11)	0.26	NM	0.45	1.04	2.04
Revenue (mm)	122.80	193.30	▲57.41	399.42	1217.87	2031.94

Currency: USD
Consensus as of Oct-26-2015 4:20 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	0.38	0.12	▼1 (68.42 %)
FQ4 2014	0.38	0.23	▼2 (39.47 %)
FQ1 2015	0.36	0.23	▼3 (36.11 %)
FQ2 2015	0.35	0.38	▲4 8.57 %

Call Participants

EXECUTIVES

Gary M. Stein
Head of Corporate Communications

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

Martin Kelly
Chief Financial Officer

ANALYSTS

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Devin Patrick Ryan
JMP Securities LLC, Research Division

Eric Noel Berg
RBC Capital Markets, LLC, Research Division

Glenn Paul Schorr
Evercore ISI, Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

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

Michael J. Cyprys
Morgan Stanley, Research Division

Michael Roger Carrier
BofA Merrill Lynch, Research Division

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

Presentation

Operator

Good morning, and welcome to Apollo Global Management's 2015 Third 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 Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, Chief Financial Officer. Earlier this morning, we reported non-GAAP economic net income of $0.26 per share and distributable earnings to common and equivalent holders of $0.36 per share for the third quarter, of which $0.35 per share was declared as a cash distribution.

Before I hand the call over to Josh, 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 third 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 Josh Harris, Co-Founder and Senior Managing Director of Apollo Global Management.

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

Thanks, Gary, and good morning, everyone. Despite a challenging and complex market backdrop during the third quarter in which we saw weak equity markets with the S&P down 8%, sluggish credit markets with leveraged loans and high yield down low to mid-single digits and ongoing volatility in energy with oil down 25%. The funds we manage performed relatively well, and we continue to identify opportunities for growth at Apollo. I'd like to focus my remarks this morning on providing you with an update on a few key business drivers and some of our active strategic initiatives.

Starting with fundraising, we generated inflows of approximately $3.3 billion during the quarter, which came from a variety of our investment strategies across the Apollo platform and reflect the continued growth and diversification of our business. We received $1.3 billion of commitments from the first closing of our second natural resources bond in private equity, which remains in the market and already exceeds the total size of our first natural resource fund. As announced previously, we received another $500 million from our strategic relationship with Texas Retirement System towards a $1 billion credit mandate. Our success in delivering differentiated returns through customized managed accounts led to 2 new credit mandates in the quarter from 2 large non-U.S. pension funds, totaling approximately $540 million. In addition, existing mandates added $150 million to their accounts.

We held a $450 million final close to our third structured credit recovery fund, bringing the total fund size to approximately $1.2 billion, meaningfully larger than its predecessors. We also continued to see net inflows into some of our open-ended strategies, including our credit hedge fund and Total Return Fund. The public commercial mortgage REIT we manage, ARI, raised $350 million in a private stock transaction with a sovereign wealth fund during the quarter.

Lastly, we've begun to scale up our 3 retail oriented sub-advisory mandates, which include Oppenheimer, Waddell & Reed and K2. Today, Apollo's credit funds are sub-advising on approximately $100 million for those mutual funds, with the opportunity to sub-advise on additional assets as these funds grow.

Turning to capital deployment. We invested $3.9 billion across the platform during the quarter. Deployment in private equity totaled $1.4 billion, where funds we manage closed on simultaneous acquisitions of Protection 1 and ASG, 2 alarm services companies. The funds we manage also made follow-on investments in select distressed situations as well as in our funds portfolio of energy-related asset buildups. In credit, the funds we manage deployed $1.8 billion across a variety of strategies, including pan-European distressed lending, CLO debt and equity, private lending, syndicated bank loan, mezzanine lending and energy debt.

One example of the different ways in which we pursue investment opportunities is Alteri, which is a joint venture formed last year to focus on stressed and distressed retail situations in Europe. This group is led by a number of retail industry veterans and has already completed several transactions and continues to evaluate a number of potential investments.

In our -- in real estate, our funds and accounts deployed more than $600 million, primarily in commercial real estate debt investments. Across the Apollo platform, our funds currently have nearly $30 billion of dry powder available to invest. We continue to evaluate an active pipeline of opportunities to put additional capital to work. Since the funds we manage generally have long-dated capital investment horizons, we believe that the recent market volatility creates value-oriented opportunities and increasingly opens up potential stressed and distressed investments that will unfold over the months ahead in a number of industry verticals. During these times, you should expect our contrarian style of investing to drive us to lean into situations from which others may shy away.

In certain cases where market values are falling but our conviction remains, our funds are buying more to build on existing positions at a lower average cost. As demonstrated by our long-term track record of private equity, this contrarian approach has proven to be a highly rewarding strategy and is a hallmark of our investment style.

One current example is the energy sector, an area in which we have deep industry and technical expertise. During this period of dislocation, where pricing of the underlying commodity has declined significantly but industry participants haven't yet fully absorbed the impact, we're tactically picking our spots and working to identify buying opportunities. We continue to believe this is a very attractive area to be raising investing capital, and our expectation is that the opportunity set for deployment will expand over the next 6 to 18 months.

I would like to highlight 2 additional growth opportunities our clients pursued during the quarter, which we believe are strategic to the Apollo platform. One growth initiative we've discussed previously is MidCap. MidCap's financial penetration into middle market directly originated credit space. At the end of the third quarter, MidCap had $3.6 billion of assets. They recently announced the acquisition of an asset portfolio from General Electric and Mubadala. It is expected to close in the fourth quarter and will double the size of their balance sheet, taking it up to approximately $7 billion. We remain very optimistic about the growth trajectory of this vehicle since MidCap has plenty of runway to continue to grow organically and strategically. Moreover, the Mubadala-GE transaction will provide another opportunity for MidCap to raise additional equity and debt for this permanent capital vehicle.

Another growth initiative is Athene, which continued to execute on its business plan to drive value creation. The sequential increase in its valuation this quarter reflects the demonstrated evolution and success of their business model and a number of other recent milestones, including recent upgrades with Athene now having an A- rating from S&P, Fitch and A.M. Best -- having an A rating from S&P, Fitch and A.M. Best; completion of its first acquisition in the German market; issuance of its inaugural funding agreement-backed note, which will provide Athene with another channel for future organic growth; substantial progress in the completion of its financial remediation project, which allowed for the issuance of its 2014 and Q2 2015 GAAP financials; and very importantly, key senior hires, including Bill Wheeler, who joined as President after spending 17 years at MetLife, where he served most recently as President of the Americas; and Marty Klein, who'll be joining Athene in the next few weeks as CFO after serving in that same capacity at Genworth.

We believe the various strategic initiatives we are pursuing represent powerful examples of our ability to innovate and navigate complexity and to ultimately drive growth and diversification for Apollo.

I'd like to wrap up my comments by reemphasizing a point we stressed on our last call. 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. We believe that the strategic growth initiatives at MidCap and Athene are supportive of this pursuit. 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 permanent capital vehicles as of September 30. Year-to-date, our Management Business is on pace to generate more than a $1 per share of annualized cash flow, which in the context of our current share price represents a predictable base yield of nearly 5.5%. This is the highest base yield in our peer group on a comparable fee-related earnings metric. It is also more than double the forward yield of the S&P 500, which stands at 2.3%, and meaningfully above the average traditional asset manager at 3.2%. This strong level of stable, steady earnings 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.

To highlight the strength of our Management Business through a slightly different lens, according to company reports, all but one of the public traditional asset managers that have reported results for the third quarter thus far have reported net outflows with an average sequential decline in total AUM of 6% and related average sequential declines in management fees of 3%.

Today, we reported net inflows and sequential growth in our fee-generating AUM of more than 2%, and stable management fee revenue. These data points highlight the inherent strength of our business model and the resiliency of our core earnings strength. Our belief is that the market will develop a greater appreciation of these important characteristics over time, not just for Apollo, but the sector as a whole.

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

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again, everyone. Starting with our economic earnings for the quarter. In the Management Business, we earned $79 million of economic income, down from $92 million in the prior quarter. The sequential decline was primarily driven by the absence of some nonrecurring transaction fees earned in the second quarter as well as a modest increase in compensation costs as we continue to build out the platform. We currently expect to incur placement fees in the range of $6 million to $8 million in the fourth quarter, principally related to our second natural resources fund.

Third quarter non-compensation expenses included various deal-related expenses totaling $5 million related to our previously announced transactions with AR Global and RCS Capital. The closing of these transactions remains subject to the satisfaction of a number of conditions. We incurred $4 million in the second quarter, and we expect to incur additional expenses in the fourth quarter relating to these transactions.

Turning to the Incentive Business. In private equity, the 3.7% depreciation in core funds during the quarter was driven by 13.5% depreciation in publicly traded portfolio company holdings, partially offset by 2.3% appreciation in private holdings. Excluding energy-related investments, the most significant of which is EP Energy, the publicly traded holdings of our private equity funds would have been flat for the quarter and the overall portfolio would have appreciated by approximately 3%.

In credit, the investment performance of the funds we manage was modestly negative during the quarter, down 80 basis points on a gross basis and down 90 basis points on a net basis, excluding the non-subadvised assets of Athene. If we excluded energy-related unrealized losses from the Apollo managed funds within credit for the quarter, performance would've improved by approximately 100 basis points.

Due to negative marks in certain of our funds this quarter, we had approximately $6 billion of carry-eligible assets within credit move below their hurdle. The majority of these assets are in credit hedge funds and CLOs. In total, we have $19 billion of invested carry-eligible credit assets that stood below their hurdle or high-water mark as of September 30. Nearly $11 billion of these assets are less than 2.5% away from reaching their respective hurdles, at which point, those assets would again become carry generating.

Lastly, on the Incentive Business, there was a discretionary incentive full compensation accrual in the quarter of $21 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 recognized a $92 million increase in the valuation of our direct and indirect ownership stake of Athene. The 20% increase in Athene's valuation quarter-over-quarter was driven by the various factors Josh highlighted during his remarks. In dollar terms, Apollo's 9.2% economic interest in Athene is valued at $566 million on our balance sheet as of September 30. Note that this amount excludes the $178 million gross carry interest receivable related to AAA as of September 30 that we expect to be paid in shares of Athene at a future date.

Next, the percentage of Athene-related assets sub-advised by Apollo or invested in Apollo managed funds or accounts was approximately 24% or $14.6 billion as of September 30. We expect to sub-advise 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.

Lastly, regarding Athene, you may have seen that they closed on the acquisition of Delta Lloyd Deutschland early this month, their first non-U.S. acquisition, which added $6 billion of assets to their balance sheet. We are in discussions with DLD for Apollo to provide asset management services. Please note, however, that we expect the scope and associated fees for such services to be less than the existing arrangement with Athene asset management.

With regard to our cash distribution, the $0.35 we declared today was driven by a $0.24 pretax contribution from our Management Business or $0.25 net of onetime deal-related expenses and $0.10 of net cash carry, of which $0.04 resulted from a tax-related distribution for Fund VI.

One last point I'd like to mention relates to the escrow portion of our -- sorry, escrow position of our private equity funds. Fund VI remains in escrow as of September 30 and has approximately $0.27 of cash in escrow potentially available for distribution at a future date. As a reminder, escrow is a standard provision in our industry and occurs when the fair value of the remaining investments in the fund falls below 115% of the fund's remaining capital. This typically occurs as a fund gets closer to the end of its life and is holding investments in their latest stages. Given the negative unrealized mark-to-market adjustments within the private equity portfolio during the third quarter, Funds V, VII and ANRP were also in escrow as of September 30. The largest fund of the group, Fund VII, has an escrow ratio of 110% and would require approximately 4% of appreciation to fully exit its escrow position.
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 Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

In terms of MidCap, I guess, maybe how should we think about the growth there going forward? And is Athene maybe a good analogous situation where it kind of started out with an idea in assets, it grows through some big chunky deals? Or was the GE transaction and growth through GE and that type of growth kind of a one-off? And then, maybe talk about next steps for MidCap. Does it go out and raise equity right now and kind of wait to suss out the next deal? Or could there be other steps?

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

Yes. I mean, I think it is somewhat -- I mean, it is -- it's hard to predict large chunky acquisitions, but there are some out there. I mean, clearly, GE was a very large chunky transaction and maybe the largest and highest quality, but there's definitely stuff out there. It is an analogous situation in terms of there just being lots to do and lots of growth. And certainly, we are going to continue to raise -- there's a lot of interest in MidCap from our investors, and this is an -- this is -- look, this plays on a lot of things we've been talking about, which is that the banks, to a large extent, are moving back from this space, which is sort of middle-market, senior secured lending, and so MidCap is stepping right into that void. And between the returns that you can earn on the assets and a little bit of the leverage you can get, you can generate very, very attractive returns for investors. And so the investors are interested in supporting that. And so we will -- and the platform that we've designed is an advantage over others trying to get in the space. So I think we've got a critical mass. We have a great management team. We have lots of investor interest, and there are lots of people getting out of the business. So I think all of that will allow us to grow that platform quickly.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

And then, maybe in terms of your thoughts on capital return, I think this is something that you've been maybe contemplating. The stock price is depressed. KKR just kind of rejiggered its way of kind of returning capital to investors. So as you kind of think about where the stock price is, how much cash you're generating and what the opportunities are, any thoughts -- is there -- do you think there's still merit in maybe contemplating a change? Or is the current path really the obvious right path?

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

We've thought about buybacks a lot, and there's some pluses and minuses from our point of view. On one hand, our stock is clearly undervalued, with really no value. I mean, the way I think about it, there's no value ascribed in the Incentive Business at this point. That's not withstanding $80 billion that we can put in, some of which is in the money. And generally, we've gone through these cycles before, and I know it all -- it may unnerve everyone when you see us go out of -- go into escrow, but the reality is we've seen this multiple times before. And I have to really scratch my head and think about any situation -- there's very few situations where we haven't ended up in the carry in these funds because this is what we're -- this is what we do, and this is what we're good at. And so the fact that there's no value to our Incentive Business is very frustrating and, therefore, the stock is undervalued. So we have to consider buybacks. On the other hand, we have a number of potential strategic uses for our cash. And while we have $850 million of cash on our balance sheet, we currently need $650 million to the fund the future commitments. And I appreciate those commitments are over time, but we're -- we like our ratings on our debt, and we're going to be -- manage the AGM's balance sheet fiscally prudently and not -- and look to not have downgrades. And so therefore, we've got all these opportunities to substantially grow the platform strategically, and we don't have an endless supply of cash. And so we have to balance our opportunity set with our buyback. And in addition, we've been working to increase our public flow, which is now at 30%. And I know -- as someone who's spent a bunch of time with many investors on the phone, I know that there's debate whether that matters or doesn't matter. But I can tell you, it does matter. It does matter to some of the larger investors that want to get positions in our stock. And so in that -- from that perspective, buybacks would be counterproductive. And so we're constantly thinking about it. But at this point, we're going to stay the course. I'd just point out, we have been net share settling with employee stock distributions because a lot of our employees, some of their comp is in stock. And that's akin to a share buyback because you issue shares net of tax instead of issuing gross shares and letting them sell in the market, and we spent about $75 million over the last 3 quarters to fund this. And the effect of this is that we're lowering our share count quarter-to-quarter. So I appreciate that's not -- there's no drums. There's no trumpets like a buyback, but the reality is we are buying back stock in, I think, a more tactically efficient way, if you will. So that's my long-winded answer, but it is -- it's a question that we're constantly contemplating.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Just on the distribution, maybe outlook, I just wanted to get your thoughts. When you think about the funds that are in escrow versus -- it looks like the Management Business, we're seeing more growth than we have over the past maybe 2 years. And then, even on the Incentive Business, just wanted to get your thoughts on, like what portion of that, particularly maybe on the credit side, that could be viewed as more like recurring, meaning you don't have to sell something to drive that. It could be like interest dividends versus something that is going to be like transaction-oriented.

Martin Kelly
Chief Financial Officer

Sure. So Mike, it's Martin. I'll answer that. I guess, there's 3 components to the distribution, as you know. So firstly, on the Management Business, I think we've been pretty clear about our focus on growing management company revenues, maintaining or improving the margin over time and increasing the cash earnings coming out of the management company in a sort of predictable manner that creates a floor to the yield. So that's the management company piece. On TE [ph], the maturity of the funds we have is all quite different from each other. Fund VI is in escrow. It's got a small handful of investments that are barbell in terms of their performance. And I would expect that Fund VI will remain in escrow for quite some time. If we sell -- as I think you know, escrow is affected by changes in value and the sequence in which you sell assets and whether those assets are sort of above trust or below trust. And so as we look forward, and our view changes from time to time as we look forward, Fund VI is probably in escrow for the foreseeable future. Fund VII is a different story. Fund VII's escrow last quarter was about 130%, and it dropped to 110% this quarter, really for 2 reasons. One was marks on the public's, mostly EP [ph], which dropped it by 10 points, and then we get a dividend recap on Hostess, which was sort of a high value to loan cost sale. And so it's at 110%. It could easily come out of escrow based simply on marks. And then there's $5 million running in the ground in Fund VII to be harvested over time. 70% of that is private, and so there's a much larger number of companies in the portfolio. So there's a healthy amount of realizations to come. Forecasting that is something that we do, but it changes. But I can't quite -- there's certainly a plausible case for that to come out of escrow simply based on marks, given that -- the price changes we've had recently. So that's PE. And then on credit, we look at the returns that we quote, the 80 basis point overall loss in credit for the quarter is sort of net marks and carry or coupons. If you look at the construction of assets, carry assets in credit, there's $45 billion [ph] of carry-eligible assets in credit. And a bit under 40% of that today is earning carry, and a bit more than 40% of that is invested but has carry potential. And you can see in the earnings release, we stratify the appreciation that's needed to get assets back into carry. We do that for funds that are more than 24 months old. If you do it for all funds, we have about $11 billion of AUM in credit. That's within 250 basis points of getting into carry. We also have a number of funds in credit that have annual resets on their hurdle, and so the reset happens Jan 1 and next year is a new year. And so when you sort of throw all that together, it's -- to get meaningful distributions out of credit, we have to get the assets back into carry. Some of the marks on the coupon have to exceed the press, which [ph], on average, 6% to 8%. And there's a lot of sort of money in the ground and dry powder that can and should earn carry over time. That is dependent on getting assets back into carry or the annual reset funds sort of earning their keep, if you like, by earning 2% a quarter.

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

Let me just give my take on it, like -- I'll just try and simplify it. There's $81 billion of carry-eligible AUM. We have all this in our earnings release. Round numbers, 1/3 of it is currently generating carry. Round numbers, 1/3 of it is uninvested. And round numbers, a little less than 1/3, or the balance, is not currently generating carry. Most of that is likely to generate carry. I mean -- so I think -- Fund VI is a successful fund. It's largely realized. It's relatively small. So again, just having lived through cycles before, I'd be very surprised if ultimately a lot of that doesn't generate carry. And so I view this, to a large extent, as temporary. I remember where our funds were marked during the financial crisis, and it was -- this is not even -- it was wildly significantly more below carry hurdle, and all of those funds ended up generating carry. And when you're a contrarian investor -- and again, there's no -- I can't predict the future, but when you're a contrarian investor and you're buying into a debt, guess what happens? You actually have some mark-to-market losses, and that affects the value of your funds. And so this is just what we do, and so -- but -- so we'll just have to prove it over time. But we've done it for the last 25 years, and it's one of the reasons why our returns are consistently above our peers and why our LPs consistently come back to our funds.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. That's helpful. And then just on the -- I guess, on the deployment side, this quarter, activity picked up. And then it looks like even the pipeline, it's pretty active. Just wanted to get a sense. It seems like the credit markets or the financing markets are a little bit more challenging. Just wanted to get your sense, both -- because on the private equity side and the credit side you're active, just what you guys are seeing? And when you're deploying that capital, how the terms are shaking out?

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

Yes. Look, both -- I mean, both the high-yield market and the bank debt market backed up. Certainly, the high-yield market has come back a bit. And -- but the -- during the volatility in the high-yield market and -- even the bank debt market backed up and hasn't really retraced that much. That unnerved a bunch of people, and so it led to a bunch of investments. And even distressed, which has been not very interesting -- I mean, I'll be honest with you. It took a leg down. A bunch of credits that were on the bubble took a leg down. And we've been buying, for the first time, really -- we've been dipping our toe in distress and buying some stuff, and so you are -- the volatility in the credit markets is allowing us to put capital to work in more interesting situations. I think, from our point of view, we'd rather have another leg down. That would be helpful. And so it's not -- it's certainly not -- the floodgates haven't opened in distressed, but we're starting to see some interesting stuff finally. And what needed to happen is a bunch of the people that have short-term unlocked-up capital needed to be cleaned out and lose money, and I think that's happened. I think a lot -- I think, particularly in energy and natural resources, when you look at it, there was a leg down in oil. Everyone plowed right into some of the stressed credit names. And guess what? The leg down continued and got worse, and people lost a bunch of money. And so that led to unwinding of certain things, and not only in oil and energy, but across the board. And you saw some larger financing, and I don't want to comment on specific names, get backed up. And so we're sitting there with a lot of capital and waiting. And when things get backed up today, even in the BB space, they get backed up materially because the liquidity in the system, if you will, is lower, and so they have to back up into opportunistic territory. And so things can go from a 6% price dock to 10% price dock pretty quickly, and that's where BB credits. And that's where things get interesting. And so we're seeing some of that, but the reality is the last week or 2 of the markets have been -- this month has been a rally. So again, you're seeing volatility and so forth and so on. And we're just -- we're taking advantage of it where we can on a daily basis, and certainly, it does help our deployment.

Operator

Your next question comes from the line of Luke Montgomery of Bernstein Research.

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

Just coming back to the comments you made just a second ago about the deployment in the energy sector. If I hear you correctly, you think we're now on the cusp of the credit problems you wanted to see to accelerate your interest in the space. And then, I guess, along with that, assuming we are there, how would you think about allocating those deals to Fund VIII versus the side natural resources fund you just closed?

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

Yes. Well, first of all, I would never wish credit woes on anyone. But I think the market volatility in energy, which has gone on for longer than people expected, so I would say -- here's what I would answer, which is the price of oil went down a lot more than the price of debt and the price of -- than the cost of debt and the price of equity. And so you -- what you saw last year was a -- almost a halving of the price of oil. But yet, the equity markets and the debt markets didn't react to it, and there was a lot of issuance. And that allowed many of the companies to Band-Aid their liquidity needs. And for some period of time -- the people that actually bought all that have been really -- that has -- that's been marked down pretty materially, and so the markets, to a large extent, now are much more discerning about energy names. And so we are starting to see more interesting things happen. But again, it's not -- it's a -- it's not a full floodgate yet, but it -- but we're starting to see it. And the capital intensity of these companies is large enough that they have to keep either selling assets or issuing debt or equity to survive or -- you can't slow down your capital programs enough in many cases to outrun those needs without really hurting your business. And so certainly, it's helping us. And it's helping us not -- I mean, you asked about the 2 funds you managed are private equity funds, and it's pretty simple with those funds. In the case of those private equity funds, they buy private equity or they buy distressed for control. And in the distressed for control space in energy, it's still -- it's not a floodgate, but there are some things to do, and they allocate pro rata. They allocate based on the desired position size relative to those funds. It's a whole objective process that we run here. But you didn't, in your question, reference like our credit business, which is either distressed not for control or stressed or even performing credit that might back up. The BB example that goes from 6% to 10%, and we're also -- we're seeing almost as much or more opportunity in that area, but it's across the board in the case of energy. And so we're -- we'll -- I think we will see more opportunity. And the good news from our point of view is that not a lot of people -- it's very hard to read a financial statement and understand an oil company or a gas company because what really matters -- you can understand some of it, but the actual scientific research you have to do on the underlying reserves in the ground and the engineering you have to do is not readily available to all players. And so it's -- we -- I think we believe that having all these people in the field allows us to do research that is very difficult to do and provides us an advantage in discerning which companies have good reserves and which companies have higher-cost reserves. And so that advantage, we think, will reflect in our ability to buy those companies that will do well in a lower-priced oil and gas environment versus the market. And so therefore, we think we have some alpha here, but we'll obviously have to prove it by generating returns.

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

Okay. Really helpful. And then -- I realize it's still very early days. But as you said with the -- with the AR Capital acquisition for a bit longer, has anything changed in your thinking about its strategic possibilities and how that will help you scale in real estate? What challenges are you working through? And then, any thoughts on inorganic opportunities, get more involved in opportunistic real estate equity?

Martin Kelly
Chief Financial Officer

Yes. Thanks for the question on AR. Luke, I'll just say that at this point, as we noted in the prepared remarks, the deal is still subject to a number of closing conditions and so really can't say anything beyond what we said in the press release and the presentation that we posted back in August. In terms of opportunistic real estate, di you want to take that one, Josh?

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

Yes. I mean, opportunistic real estate, we continue to find opportunities in various platforms across Apollo, whether it be -- certainly, I'd say the most interesting part from our point of view of opportunistic real estate, we're finding in Europe in commercial real estate, where large portfolios of assets are being sold at discounted cap rates because of some of the regulations that are hitting the banks there, and so your ability -- so we have the ability to transact across dozens, hundreds, in some cases, thousands of properties at the same time. We have that capability. And so as a result of being able to buy in bulk, we're getting pretty discounted cap rates. I'd say, in the U.S., there's selective opportunistic real estate opportunities. Some of the core markets are getting, at this point in the cycle as you might expect, relatively fully valued. So we're playing -- in some cases, we think the arbitrage between some of the core markets and some of the secondary markets is interesting, and we're looking in some of those secondary markets.

Operator

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

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

The first one, I guess, is a simple kind of maybe accounting question for Martin. Just the -- noticed again in the quarter, the other payables to derive a distribution were essentially 0 compared to where they had been running kind of year-over-year. So is there -- should we expect that there will be a step-up in that in Q4 that obviously would have some impact on the Q4 distribution?

Martin Kelly
Chief Financial Officer

Thanks, Rob. I guess, the -- there's a couple of factors that go into the difference that you know. The primary one is balance sheet returns. So when we earn money from our own balance sheet, GP stakes, we tend to not distribute that but hold it to reinvest back in the platform. And during the quarter, there wasn't much of it. So that drove a high payout rate on distributable cash versus DE. I think, over the turn, I would refer to a -- sort of a more normalized payout rate of sort of low 90s -- 90%, low 90s. But we don't target a payout rate necessarily. We just look at it in terms of balance sheet returns and then holding that, and that derives [indiscernible].

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

Actually, I think I -- I was actually referring to, and I apologize for not being clearer. On Page 10, where you go through the shareholder distribution, the taxes and related payables, I mean, last year, they were $68 million. Year-to-date, this year, they're essentially 0. So those kind of rolled down for the dividend -- the distribution. So should we think there'll be some step-up in that?

Martin Kelly
Chief Financial Officer

Yes. So that goes to our overall tax profile, which, this year -- I guess, the difference year-on-year is 2 things. And it affects both our ENI tax rate and our cash tax rate. One is, last year, as you'll recall, we were earning a significant transaction fee from Athene, which was noncash but taxable. So we had to pay taxes on that. We don't have that this year. And then this year, we have a series of deductions for compensation that was awarded to employees many years ago, back when the 144A transaction was done. And it's just finally sort of vesting and being delivered and it's tax-deductible now. So there is a skew between the 2 years for that reason. Going forward, I go back to the comments we made at the Investor Day, which is, again, over the turn, over time, ENI tax rate, I would say -- I would expect to be in the 10% to 20% range and the cash tax rate high single digits to sort of low double.

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

Okay. And then maybe as a follow-up. I guess, I apologize, I think I missed Josh's comments earlier. But I guess I'm trying to understand the write-up in -- being [ph] in the quarter, particularly since, if I look at AAA, it was actually down, and understanding they're 2 different securities. But since AAA is still [ph] a predominant asset is Athene, I guess I was a little surprised that there'd be that size of write-up in the quarter.

Martin Kelly
Chief Financial Officer

So a lot has happened at Athene in a short space of time and all the factors that Josh outlined in his prepared remarks around a new management team, ratings from the 3 agencies, accessing new distribution channels, first funding agreement-backed notes and catching up their financial statements. And so the state of the company has evolved from sort of a rolled-up series of blocks into a operating company that's preparing for an IPO. So we moved off what we had -- the method we used to value Athene, which was embedded value, to a book value multiple. And so that -- all of those factors combined to create that uplift in the value.

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

Okay, great. And then -- and if I could, maybe just one last question, I guess, maybe kind of a strategic question. So -- I mean, you talked about some of the initiatives and more liquid strategies with Waddell, Oppenheimer, K2 as asset growth opportunities. But conceptually, I guess I'm thinking there is a open and mutual fund asset. While there's a potential for a lot of assets, it's certainly an inferior asset to all the permanent capital vehicles. You talk about more modest fees that's less permanent, opens you up to more volatile flows, to some extent, maybe use it as capacity in terms of your team's time. I mean, is it -- how do you really think about that fund [ph]? Obviously, the asset growth, but do you -- is it really something that you really want to grow a lot or it's kind of a nice add-on? But I guess I kind of struggle with that a little bit.

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

Yes. Okay. So most of our -- yes, I'd say that there are -- most of our capital is in sort of more locked-up structures and some of it is stressed, distressed, like the sort of higher octane, more alpha-oriented stuff. There is a real opportunity, though, in the sort of BB, BBB space. And we're not subject to -- like almost none of our vehicles have -- I think I'll actually go as far to say none of our vehicles, none have daily liquidity. So in certain cases, the assets that we're buying, particularly the higher credit quality assets from our point of view, they're sort of cross-over BB, BBBs into single A. Those things actually are quarterly lockups for that with some penalty and so forth. Like, we believe that, that structure is logical and makes sense, and we think we can make money. So we're not -- even in the context of some of the small amount of sub-advising we're doing with mutual funds, we're pretty careful to not mismatch the assets that we own and the liabilities. And so we're not really taking the same redemption sort of risk that a mutual fund -- risk [indiscernible]. We're not subjecting ourself to the type of redemption that a large mutual fund complex would have to deal with.

Operator

Your next question comes from the line of Glenn Schorr of Evercore ISI.

Glenn Paul Schorr
Evercore ISI, Research Division

Just one quick follow-up on the Athene mark. Just curious, what book multiple are you using? And more importantly, will it float with public comps now quarterly, now that you're on that valuation thought process?

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

It's -- Glenn, it's 1.2x book and that is benchmarked against public comps.

Martin Kelly
Chief Financial Officer

Yes. I would point you to the AAA financial statements, which are posted up on the Apollo alternative assets website. The financials were posted last night. There's actually a pretty lengthy description in there about the valuation methodology of the 1.2x book value multiple. It's on Page 34 of the financials.

Glenn Paul Schorr
Evercore ISI, Research Division

Okay. No problem. Just -- I was just curious on that. And then on real estate, I think my first glance was, wow, in that market to be up 4.6% in the quarter is pretty good. Is that a function of just being in the -- some of the right REIT sectors which did well in the quarter? Just curious what drove the good real estate performance.

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

It was specific properties that are quite seasoned and are either nearing an exit or there's good comps that we can look to value them. So it's not particular to a particular REIT sector, but it's individual assets that we own that there's a decent transparency around comps on [ph].

Operator

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

Devin Patrick Ryan
JMP Securities LLC, Research Division

Maybe just a couple bigger-picture questions. So the first potential of higher interest rates, I know you guys have addressed it, but it seems that the market perception is still that higher interest rates will create a headwind for the business in aggregate. So I guess, maybe if you can help us walk through some of the various parts of the business that will be impacted. And then how much management actually goes around preparing for whether rates will rise or even, on the other hand, managing for a lower for longer environment?

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

Yes. Look, I mean, again, so just going through it, in private equity, whether it be real estate or the -- if higher rates mean less of that, like less liquidity, less availability of financing, generally what happens there is that the purchase price multiples like ultimately follow that. I think a lot of what's driving what is kind of an overvalued environment, as -- at least I believe and have said many times, is the excess liquidity in the market, starting with the quantitative easing that's going on. And so what -- even the perception that rates are going to go up creates volatility and pullback in the credit markets, which ultimately helps across credit immediately because we buy stuff at higher returns and private equity over time because we -- prices come down. And so where it would obviously hurt is on exit. And so if you think about -- when you say how much management goes into it, the answer is, like, we've been preparing for it for -- I mean, by -- basically -- we're basically through the excess distribution cycle, and now we're in the asset accumulation cycle. And so clearly, we've been betting that there'll be more volatility and lower values over time. And clearly, lower for longer is not -- we're a value investor. Lower for longer is not a good environment for a value investor. Period, full stop. But having said that, our platform -- I'm actually very proud of both what we've been able to do in private equity and credit and real estate in terms of accumulating assets at very low multiples. In an otherwise overvalued environment, our private equity portfolio, the average -- if you look at our flagship Fund VIII, the average multiple in the industry in private equity is over 10x. And our multiple is pretty much -- is plus or minus 6. So we're sitting there at a 4 multiple point discount, and that sort of -- I could sort of give you that same story across all of our businesses. And so we're getting better at our craft in terms of being able to navigate through finding areas of arbitrage, whether they be energy or financial services and buying from banks that are getting smaller. Like, within the context of this overvalued environment, you have to find things to buy, and we're getting better at that. But it -- but now, saying that, it's definitely not the best environment. So we -- again, perception versus reality, just having done this for 25 years, rising rates might create some mark-to-market write-downs for us. But generally, when that happens, we buy a lot more than we sell and that ends up being very good for value creation.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay. And then, second question is just around the conversation on capital allocation. There's been an increased focus, again, around potential changes to tax treatment on carry interest. We may be a long ways away from that, if at all, but how important is that favorable tax treatment as a factor in how you guys think about the attractiveness of the outsized dividend that you pay now versus other options for that capital?

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

It's not -- it doesn't affect. Okay. So changes in carried interest -- and again, like we've tried to communicate this, and sometimes we haven't been successful, but changes in carried interest do not affect the financial statements of Apollo, nor does it affect what we pay in dividends. What it does affect is ultimately how much in taxes people that own the carried interest pay. And so the effect would be on employees. And then I'll just kind of answer the second question on your mind, which is I still believe that private equity will be a very attractive place for smart people and young people to work, on the margin. Could you lose an employee or 2 over changes in carried interest? Maybe. But by and large, I don't see it having a significant effect other than the obvious effect, which is people will make less money. But it's not -- it gets a lot of play and discussion that it might -- and it's sort of -- there's a lot of noise out there relative to the valuation of the stock and dividends and earnings, and it's just not true.

Operator

Your next question comes from the line of Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

I just have a follow-up here on Athene. Can you remind us what the level of asset sensitivity is of Athene's balance sheet and also the approximate duration of its liabilities?

Martin Kelly
Chief Financial Officer

It's short. It's structurally short.

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

By a little.

Martin Kelly

Chief Financial Officer

By a little. Yes, it's 4 and change versus 5 and change on the asset and liability side of it.

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

It's very -- it's pretty matched. It's a little bit short. It's a little short.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

And then just as my follow-up here on real estate, how do you think about the right size this business and scale, and I'm sure the answer is larger. But you had a really strong return this quarter, but the business is still producing a loss. So I'm just wondering, like, when do you get it -- scale in this business?

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

I mean -- it's, I'd say, on the debt side, I mean, it's -- we're -- I think we're scaling -- I mean, the answer is we'd like to be a lot bigger than we are. I'd say, clearly, when you look at the size of our private equity business relative to certainly Blackstone, but a number of other players, there's a lot of room to go. But it's like everything else. We started from a small base. We're growing it, but we're growing off of a small base. And so yes, I -- the sort of breakeven nature of it on our financial statement is not lost on me nor on anyone here, and we do think that there is leverage-ability to the business and it is growing. I would say that when you include other part -- real estate that's within credits, the business is actually a $17 billion business. And so it's not small, and we are thinking about how we reflect that part of the business more accurately on our financial statements, and stay tuned on that.

Operator

Your next question comes from the line of Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Question for you guys on the management fee business. Clearly, really nice to see the increased focus on that earnings stream in a more, I guess, kind of subdued carry realization environment. So as we look out over the next year or so, I don't know if I heard it on the call. But any way you can help us, I guess, summarize sort of what the pipeline of AUM that's not paying management fee is? How quickly you think you guys can deploy it, obviously, outside of the pending AR Capital acquisition? Because it sounds like there's a couple of things going on there. So a, the size of that and then the incremental margins that you think that's going to come in to the management fee ENI.

Martin Kelly
Chief Financial Officer

So the total amount of AUM with fee potential but not earning management fees today is about $11 billion [ph]. And most of that's in credit. $8 billion or $9 billion of that is in credit. And that's just given the structure of many of the credit funds where we are paid as we deploy versus as we raise capital. So I would look to the run rate of deployment in credit as the best sort of guide to how quickly that's put to work, which is sort of $5.5 billion for the last 12 months and sort of annualizing to about the same number for the first 9 months.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Okay. And just the incremental margin on that, is that kind of keeping the overall fee-related margin constant over the last kind of several quarters, so there is a pickup on the back of it?

Martin Kelly

Chief Financial Officer

Yes. I guess, there's a wide range in credit. The types of funds that are sort of draw-down-style funds where we get paid as we invest tend to be higher fees. But then we're also growing out the yield-oriented part of the business, which is [indiscernible] fees, like MidCap. And so I guess, use a blended average, but it's quite a wide spectrum.

Operator

Your next question comes from the line of Michael Cyprys with Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

I guess, just more broadly on the distribution, how should we be thinking about the potential monetization outlook over the next 12 to 24 months in PE now that the Fund VII is in escrow? And then just also in credit, too, it looked like the monetizations in credit have been stepping down in each of the past 4 quarters. Just any color around that would be helpful.

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

It's sort of -- I mean, we're largely through our -- if you look at our assets in the ground, we're -- like, first of all, Fund VII is like very close to carry, very close to escrow. So like one sort of tick-up in the marks and you're not in escrow. You're -- I mean, I think we lay out in our presentation how close it is, and Martin has said. So I'd say that, that's a liquidating fund, and we expect -- whether or not we sell into the -- will depend on market volatility. So you're, unfortunately, asking me questions that are very difficult to answer. So that's probably the best that I would be able to do.

Michael J. Cyprys
Morgan Stanley, Research Division

And on the credit side?

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

And again, there's been volatility in credit. I'd sort of give -- unfortunately give you the same answer. Although certainly, in credit, clearly, there's a large amount of interest expense cash flow that's coming out of that portfolio on a current basis. So it's not really as leveraged, if you will, or as volatile as the peak. It's much more predictable in many cases, just based on interest expense. But relative to, like, what we're going to sell or not sell, tell me if the market is going to go up or down. If the market goes up, we're going to sell a lot, and if the market goes down, we'd probably be buying more than we're selling, if history is any guide.

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

The drop in carry AUM, we've already been discussing it. But just wondering if you guys can inform us whether part of that drop was related to performance of energy investments in those funds.

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

Yes.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Okay. Any color you could share on what the concentration of energy is in those particular funds?

Martin Kelly
Chief Financial Officer

I can give it to you across the platform, and so -- which is probably the best guide. We have about $6 billion in the ground in energy today across the fund, and about 2.5 of that PE and 3.5 of that is credit. And so we have been actively buying in credit and -- as the marks have gone down, which is what we do. We also have -- we have a lot of dry powder to put to work, which we would do selectively when the time comes. But for sure, it's a part of it.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Got it. And real quick, any update on quarter-to-date realizations?

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

To date, we have sold a couple of small investments, but they have not created any distributable cash.

Operator

Your next question comes from the line of Brian Bedell of Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Most of my questions have been answered. Maybe just, Josh, a different angle on the KKR move yesterday on the distribution side of it, moving to a fixed distribution. Just I guess, in big picture, what's your view on that? Is that something that Apollo has ever considered? And then, do you think it opens the debate a little bit more for the alternative firms, including yourself, to look at becoming a C-corp from the partnership structure?

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

Yes. Look, it's very -- I mean, obviously, we watch all of our competitors very closely, and it's probably not appropriate for me to speculate on why KKR did what they did. Certainly, our strategy is very different. And there are many roads to Rome, right? Maybe not everyone has to have the same strategy to be successful. From our point of view, we continue to be an asset-light model, and we continue to believe that distributing nearly all of our cash flow to our shareholders and generating big dividends is the right strategy for us. And we'll certainly watch what everyone does, and if there's -- and if it's compelling, and we're always looking and researching at better ways to create shareholder value. But right now, we're -- we believe in our strategy.

Operator

Your next question comes from the line of Eric Berg of RBC Capital Markets.

Eric Noel Berg
RBC Capital Markets, LLC, Research Division

Josh, in thinking about the building out of the permanent capital businesses as rapidly and as sequentially as you have, is this really about, at least in part, attracting new investors who would like to become owners in your company but can't stomach the volatility? Or is this something that your existing shareholders have asked for, or both?

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

I would say that -- certainly, I'd say permanent capital vehicles are generally -- there are some investment opportunities that are longer term in nature, even longer term than traditional private equity funds, which are quite long term in nature. And so to take advantage of those investment opportunities, permanent capital vehicles make sense. Secondly, in many cases, there are potential public exits or strategic exits for things that are built up in a company structure at premiums to book value versus in a fund structure. And so as a result of those factors, investors -- and certainly, there are investors that prefer those structures for their own reasons. And so for all those reasons, it certainly makes sense to consider permanent capital vehicles in the context of all the other tools that you have in your toolbox and, in certain situations, avail yourself of those tools to generate better returns in more efficient structure for your investors. On the other side, I don't believe the market yet is recognizing it, but I do believe that it's -- having a permanent capital base is -- that's sustainable where you don't have to -- even from -- sing [ph] for yourself for every 5 years, if you will. I think that, that is -- I think that derisks the entity. And so therefore, it's puzzling to me that we don't get any credit for and no one talks about it. But yes, I do believe it is better. I think we will talk about it increasingly, because we think it is something that differentiates us and that investors haven't yet factored in.

Operator

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

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and thanks, again, everyone for joining us this morning. As always, 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 Third Quarter Earnings Conference Call. You may now disconnect.