S&P Capital IQ

CONTENTS

Apollo Global Management, LLC NYSE:APO

FQ3 2016 Earnings Call Transcripts

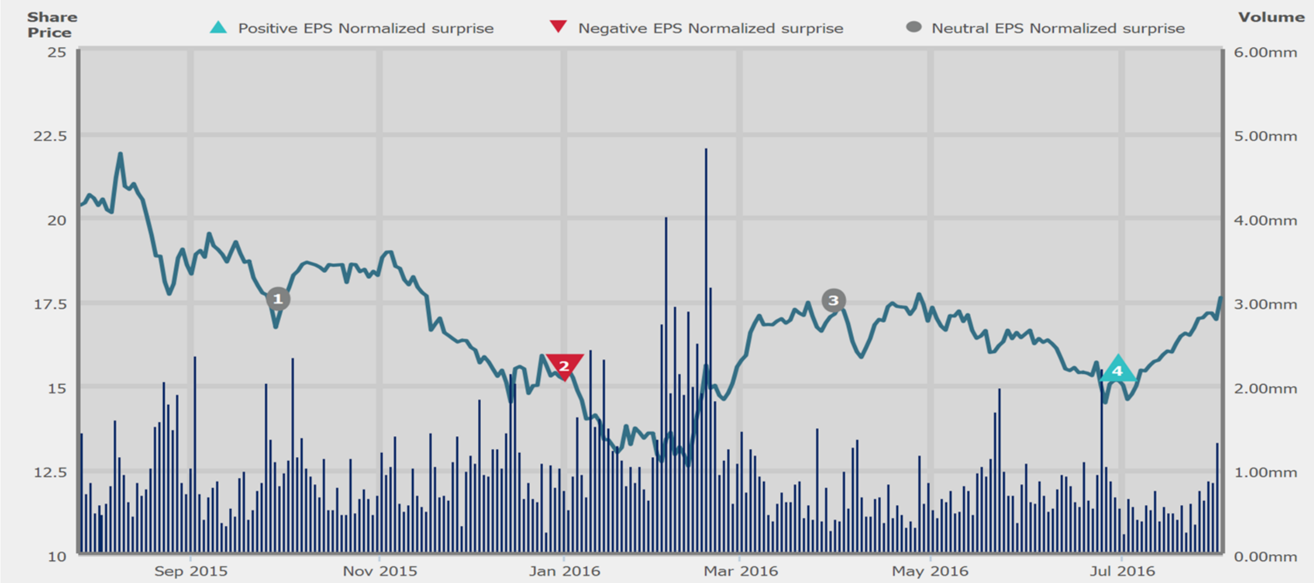
Friday, October 28, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.46	0.58	▲26.09	0.44	1.67	2.03
Revenue (mm)	451.15	503.70	▲11.65	433.75	1658.60	1892.25

Currency: USD

Consensus as of Oct-28-2016 2:52 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	(0.11)	0.26	NM
FQ4 2015	0.26	0.08	▼(69.23 %)
FQ1 2016	0.04	(0.18)	NM
FQ2 2016	0.20	0.98	▲390.00 %

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

Christoph M. Kotowski
Oppenheimer & Co. Inc., 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

Kaimon Bryan Chung
Evercore ISI, Research Division

Kenneth Brooks Worthington
JP Morgan Chase & Co, 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 2016 Third Quarter Earnings Conference Call. [Operator Instructions] This conference call is being recorded. I would now like to turn the call over to Mr. Gary Stein, Head of Corporate Communications.

Gary M. Stein
Head of Corporate Communications

Thanks, operator. Welcome to our third quarter earnings call and thanks for joining us. Sitting around the table with me this morning are Josh Harris, Co-Founder and Senior Managing Director; and Martin Kelly, our Chief Financial Officer.

As a reminder, this call may include forward-looking statements and projections, which do not guarantee future events or performance. Please refer to our most recent SEC filings for risk factors related to these statements. We'll be discussing certain non-GAAP measures on this call, which management believes are relevant to assess the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our third quarter 2016 earnings presentations, which is available on the Apollo website.

Earlier this morning, for the third quarter, we reported GAAP net income of $0.50 per share. We also reported economic net income of $0.58 per share, and distributable earnings to common and equivalent holders totaled $0.36 per share, $0.35 of which was declared for the quarter's distribution.

If you have any questions about the information provided within the earnings 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.

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

Thanks, Gary, and good morning, everyone. I'd like to take this opportunity to walk through a few key drivers of our business that produced our strong third quarter results, reflecting positive investment performance, significant capital deployment and continued asset growth.

Starting with investment performance, the funds we managed generated positive results with credit up 3.9%, private equity up 2.6% and real estate up 1.4% respectively. In credit, the positive performance was broad-based. Our drawdown funds, which represent approximately 40% of our carry-eligible credit assets generated gross returns of 4.6% bolstered by investments held in our European Principal Finance and Financial Credit Investment businesses.

In addition, our Liquid/Performing funds, which also represent about 40% of our carry-eligible credits assets, delivered a 3.6% gross return. In private equity, the 2.6% appreciation we saw across the portfolio was driven by our funds' private portfolio company holdings, which appreciated 4.5% but were partially offset by declines in public portfolio company holdings.

Fund VIII continued to display positive momentum appreciating by 6% during the quarter and bringing gross and net IRRs to 27% and 13% respectively. From inception, since Fund VIII is still in deployment and -- is still in its deployment period, we would expect the IRR spread between gross and net to compress over time. As a result of strong investment performance in both private equity and credit during the quarter and over the past year, there has been significant growth in carry-generating assets.

At this time, last year, $28 billion or approximately 1/3 of our carry-eligible AUM was generating carry. Over the past year, the pool of assets has nearly doubled to $51 billion, representing almost 2/3 of our total carry-eligible assets. Looking at this another way, based on current marks, $0.84 of every carry-eligible dollar in the ground today is generating carry. We believe this dynamic of carry-eligible asset is progressing to carry-generating status is critical in understanding the earnings potential of our business.

If we continue to produce strong investment performance and our funds accrete in value, we will produce meaningfully higher amounts of carry income than we would have just 12 months ago.

Turning to capital deployment, the robust levels of activity we've seen so far this year continued in the third quarter. The funds we've managed together with co-investment partnerships deployed or committed more than $5 billion in aggregate investments across Apollo's platform. Year-to-date, the funds we managed have deployed more than $12 billion, and we are currently on pace to deploy more capital in 2016 than any other year in our history.

This has primarily been driven by our private equity business as Fund VIII has maintained an above average investment pace, reflecting deal flow that has been in the works over the past couple years. We understand some of you may be wondering how our funds have successfully deployed this level of capital in a market, where evaluations remain elevated given our value-oriented approach. As one of the fundamental tenants of our investment style, I am pleased to note that we believe we have maintained our value-oriented investment discipline through this period of heightened activity. The average creation multiple of Fund VIII remains at less than 6x adjusted EBITDA, significantly below industry averages. We believe that we possess several competitive advantages at Apollo that have enabled us to accomplish this level of deal flow, which has included more than 10 transactions over the past 10 months.

First, we have a willingness to tackle complexity and create solutions to uncover value in situations that others may shy away from. Second, we have a proven ability to privately place debt and preferred securities to support the financing of our funds' transactions. Our broker-dealer and capital markets capability play a valuable role, particularly, when traditional sources of financing pull back and it is highly complementary in environments, such as the current one, where financing markets are robust. So far in 2016 approximately 450 different institutions have bought more than $40 billion of debt issued by portfolio companies to help finance our funds' recent private equity transactions. And approximately 70% of those institutions have participated in multiple transactions sponsored by Apollo funds this year.

Lastly, the size of Fund VIII, coupled with equity co-invest interest from our strong relationships with leading investors has allowed us to engage in larger transactions or investments that could be scaled up over time. This dynamic has allowed us to pursue opportunities, which are not feasible for many other funds.

We believe, a combination of these competitive advantages were on display in each of the transactions which we closed in the third quarter, including Diamond Resorts, one of the largest timeshare operators, Outerwall, a provider of 2 recognizable consumer service brands, RedBox and Coinstar; AmQuip and Maxim Crane, 2 lifting services business that were combined to create a sizable market participants and Constellis, a leading private security company. Other deals currently pending, include Rackspace and Apollo Education. At the end of September, Fund VIII was 65% committed, and we have a pipeline of other potential investment opportunities that remain strong.

I'd like to continue the call by providing some commentary around asset growth and fundraising. We generated more than $7 billion in inflows in the third quarter, which is partially offset by a reduction in leverage, primarily in connection with the closing of the ARI, AMTG transaction. The quarter's inflows were driven by various products and businesses.

Within credit, there was a $3.5 billion -- there were $3.5 billion of new assets related to Athene, which grew assets under management to $72 billion during the quarter, up nearly 20% from a year ago. Athene's growing during the quarter resulted from retail origination activity, new flow business from reinsurance clients and favorable market appreciation.

We raised an additional $1.1 billion across a variety of liquid and performing credit strategies during the quarter. Two notable items included nearly $500 million for our total return strategy and nearly $400 million for CLOs. As a reminder, total return is an unconstrained credit mandate design to take advantage of sourcing and underwriting capabilities of the entire liquid end of Apollo's credit business. And it is becoming an increasingly important strategic platform. Total return is approaching its 3-year track record and is seeing increased traction in consultant channels.

Within private equity, we raised $1 billion incrementally, for our second natural resources fund, bringing total commitments for that fund to $3.4 billion, more than double the size of our first vintage. Fundraising will likely wrap up in the fourth quarter, with modest incremental commitments expected. In addition, we raised $250 million of capital in equity co-investment partnerships to help finance the Diamond Resort transaction.

Beyond the quarter's activity, there are several other products in the market currently, or likely to be in the market soon. In credit, there are 2 items worth noting. First, we are in the process of raising capital for our latest vintage of our financial credit investments funds series or FCI, a credit drawdown product which focuses on insurance-linked securities. We raised $400 million to-date and we're hopeful the fund will match the size of its predecessor, which raised $1.6 billion in total commitments.

Next, we're also in the market with our third vintage, in the European Principal Finance Fund series, which is primarily focused on buying portfolios of assets and businesses from financial institutions in Europe. Its predecessor received $3.4 billion in total commitment, and we are hopeful that the third vintage will meet or exceed that size, with the first close expected to take place later this quarter.

In private equity as Fund VIII continues to deploy capital at the pace I discussed earlier, we currently anticipate the fundraising process for our next flagship fund to launch in the fourth quarter. Fundraising for this product is expected to be completed in 2017. We assume it will be similar size to the nearly $18.5 billion raised for Fund VIII. We would expect the addition of a product of that scale to add considerably to fee-generating assets to our platform and be meaningfully accretive to our Management Business earnings in 2018 and beyond. We are extraordinarily proud of the work our team has done deploying Fund VIII -- with Fund VIII investments, with a rigorous investment discipline that is yielding strong and early returns.

Now I'll turn it over to Martin for some additional comments. Martin?

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning, again, everyone. Starting with our economic earnings for the quarter, the $231 million or $0.58 per share of total ENI in the quarter was driven by strong performance in both our management and incentive businesses.

In the Management Business, we owned $130 million of economic income, which was fueled by rising management fees, strong transaction and advisory fee revenues and sequentially lower expenses. The sequential growth in management fees included approximately $14 million of onetime catch-up fees and [ph] on new capital that was raised for natural resources during the quarter.

Noncompensation expense has decreased during the quarter, due to the absence of onetime items from the second quarter that did not recur. Due to ongoing fundraising initiatives, particularly our third European Principal Finance Fund that Josh mentioned earlier, we currently expect to incur distribution-related placement fees in the fourth quarter of approximately $20 million to $25 million. Importantly, we expect that these expenses will be more than offset by the growth in management fees resulting from EPF III within the first year of its multi-year life.

In the Incentive Business, we earned $152 million of economic income during the quarter, which was driven by 3 factors: positive investment performance in private equity, which produced $58 million of net carry; positive investment performance in credit, which produced $64 million of net carry; and appreciation in the value of Athene. In private equity, carry income was driven by gains in Fund VIII, offsetting depreciation in Fund VI and Fund VII. Fund VIII further distanced itself from its preferred return threshold, earning $62 million of catch-up carry at an 80 [ph]% rate as well as $64 million of carry at a normal 20% rate.

As we mentioned last quarter, Fund VIII is in the position of being carry generating, while still deploying a considerable amount of capital. For this reason and given the dynamics of marching forward in time to keep pace with the preferred return hurdle as well as uncertain future portfolio marks, it's still possible the funds' net IRR could moderate to the catch-up carry territory over the coming quarters.

Investor performance in our credit business at 3.9% drove strong carry income and led to an increase in carry-generating AUM. The carry income was primarily generated from our opportunistic drawdown funds as well as our credit hedge funds. The sequential increase in evaluation of Athene was driven by the appreciation of publicly traded comparable companies in the life insurance sector. Recall that as Athene approaches its goal of becoming a public company, its quarterly evaluation should trend in line with market movements in peer valuations, absent any other company-specific drivers. Athene's fair value increased by approximately 3% and this resulted in a $19 million unrealized gain within other income as well as a modest amount of unrealized net carried interest income.

Lastly, on the Incentive Business, there was a discretionary incentive pool compensation accrual in the quarter of $10 million within realized profit-sharing expense. With regards to our cash distribution, the $0.35 per share we declared today, was driven by the relative cash flow stability of the Management Business and the upside it can create by leveraging the firm's integrated platform as it relates to sourcing, financing and executing sizable transaction.
With that, we'll now 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 Michael Carrier of Bank of America.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Maybe, first one for Josh. The level of deployment, you hit on some of the reasons that you guys have been able to deploy the capital. It still seems a little unusual just given where the market is and where evaluations are. So just wanted to get some understanding. It seems like some of the deals are combinations of different firms in the same industry and so maybe, you get more synergies and that's how you can get to pretty attractive in evaluations. But just wanted to get some insight on where you're seeing those opportunities and the level of confidence, I guess, in still generating returns because clearly the returns in the fund are performing well. So just wanted to get some insight on, how those portfolio companies are doing relative to expectation?

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

Yes. So I would say that in Fund VIII, we are seeing year-over-year appreciation in EBITDA in the low to mid-single digits, and so we are seeing those companies perform well. In terms of value accretion though, at the end of the day -- and I don't disagree that the equity markets are fully priced. But we are -- and the private equity market is significantly priced. The average transaction TEV to adjusted EBITDA trailing in a private equity markets was over 10 approaching 11x EBITDA, and we're sitting here, buying stuff at 6x EBITDA or below. And so the reality is that we are finding this stuff and the value creation is real. That's literally the spread that we're creating our portfolio at. In terms of how that's occurring, we're seeing -- traditionally about 1/4 of our business is so-called corporate carve-outs, where we have bilateral negotiations with companies and so you're in exclusive dialogues there. That's always helpful in terms of creating a discounted purchase price. Certainly as you mentioned, we're doing what we called buildups, where we put a number of companies together and you do get synergies. I will say though that when you look at generally, the multiple buy down on those transactions, maybe it's a multiple point or so, plus or minus. I'm giving you a general statement. Each transaction is different. But it's certainly not the 5 multiple point discount that we're actually creating our portfolio at. So there's clearly something else going on. And then thematically, the large scale of our capital allows us to do -- we're in pretty rare air in terms of the people that can put transactions together of this size and so again that helps in terms of having the leverage to negotiate good purchase prices. But overall, the public markets, we think are very bifurcated. If you're a growing tech company that is knocking the cover of the ball and appreciating your earnings consistently right in line with the expectations, you're getting a very high multiple but either -- a lot of times the market doesn't really want to take the time to understand complicated stories or if -- companies that maybe missed their earnings, the market perceives to be underperforming and trading at very, very low multiples, and we just take a different view of value. The best example of that truthfully is ADT. ADT was a very large public company that we put a significant premium on relative to the market, but we still believe that buying that franchise under 6x was a very good deal for us and our investors and that company is performing quite well. So we literally just took a different view, and we thought we were buying a great business and the market wasn't valuing it appropriately. So we're seeing for the first time in -- at least in my memory, deal after deal after deal, and we mentioned a bunch of these on the call, public to private. Usually, whenever -- usually, when we see a public, we always say, well, wow, we're putting a premium on this public company. What are we -- let's make sure we know what we're doing. But honestly, as I look at the prices that the public markets are affording us I think it's creating a lot of opportunity for us. So sorry for the long-winded answer, but there was a lot there that I felt was worth going through.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Yes, that's helpful. And then Martin, you gave a little bit of color on the expenses and some of the things that drove FRE in the quarter in the outlook. Just 2 thing on that. In the second quarter, what were those items on expenses or not what were they, but just what was the level of that, that kind of created the sequential decline? And then probably, more importantly, as we think about '17 and as some of the fees start to kick on, on some of these funds, just where should we be thinking about maybe the FRE margin or how much expense growth to expect as those fees kick on?

Martin Kelly
Chief Financial Officer

Sure, Mike. So just answering the first part firstly. There were a handful of one-off items in Q2 that -- none of them were individually significant. Some of them were sort of, deal cost, professional fees and so on. A part of it was a slight increase to the SEC settlement. And that was sort of clearly one-off. In Q3 it's low. I would sort of look through both of them, as you look forward and sort of run rate to the historical average on noncomp expenses, ex placement fees. And then, as we look forward, away from placement fees, and we have a pretty tight lid on noncomp expenses. So we manage that carefully and expect that to be sort of similar to current levels. I think the only 2 funds in the lineup that we would expect to take place from fee costs on our EPF III, which we spoke to and then, ultimately Fund IX, but the timing of that and that close is, we'll figure that out. It will be potentially, sometime next year, but it's hard to isolate a quarter.

Operator

Your next question comes from Devin Ryan of JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Maybe starting on MidCap. Obviously, you guys have spoken highly about the opportunity there. Not sure, if you can just give a little bit of an update around how that business is progressing, how you're feeling about that kind of trending towards that $20 billion-plus opportunity over time and anything new that you're doing on that front?

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

Yes. So MidCap is going quite well. We've a very strong team there. We added about a $1 billion of AUM and grew that from 5.5% to 6.5% year-to-date. And I would expect it to continue to grow organically at that kind of rate -- hopefully, a little faster, but at that kind of rate. And then -- and so you can sort of do the math. To get to the $20 billion, we would need another deal or 2 like Mubadala -- Mubadala GE, which we did last year, where we added 3 or so -- $3-plus billion of assets. And so there are those types of deals out there. Certainly, the traditional providers of this type of -- this type of financing, this direct origination into the middle market are still gating [ph], if you will and we and others are continuing to grow our platform and so still continues to be a good part of the market for our investors, where we see better risk returns because we're buying senior debt generally that is financing at a relatively low multiple and getting paid decent rates for it relative to the public market. So our investors continue to have appetite as well.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay. Helpful update there. And maybe a different topic here, just thinking about opportunities in the retail brokerage space, which is all the changes occurring right now, particularly, with the new regulation coming, the Department of Labor fiduciary rule. I am just curious whether, there might be opportunities to figure out a way to get exposure to or maybe even own distribution more cheaply, or whether or not you can add new products or add new sub-adviser relationships. Just how some of the developments there might present opportunities, and if you're looking at any because of those developments?

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

Yes, I mean, clearly. Again, I mean, the backdrop is that certainly retail investors are looking for yield like everyone else. And so increasingly, the alternative space for retail investors is attractive, particularly in things like real estate or bank debt. And certainly, that is -- and certainly, like our total return product that we spoke of, which kicks out kind of a 5% to 6% yield, if you will and relatively safe stuff. I think that's the perfect example of an opportunity that in essence is a retail-based opportunity. And there's also -- we've also been growing some of our permanent capital vehicles that we -- where the public companies hold the assets and then we manage the assets on behalf of the public companies. That would be an example of whether it be ARI, would probably be the best example of where we're growing, into both retail and institutional. But retail is a big part of it and then increasingly, we're seeing family offices and high net worth individuals in some of the programs interested in those types of alternatives and even some of our more high alpha alternatives, such as our private equity fund or our EPF business. EPF is likely to have quite a significant high net worth tranche as part of its closing. So we are definitely growing that business and today, it represents 10% to 15% of our business, and we continue to make investments in terms of people that need to either cover the systems themselves in the banks or nonbank platforms on a wholesale basis. And so certainly, that is something that we're focused on and are investing in. Some of the regulatory changes definitely create volatility and a little bit of headwind. But overall, there's still a big tailwind for our products. So it's kind of overwhelmed that a little bit of headwind that you're talking about with the DOL and some of the other changes.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Right. I guess, just from the distribution perspective, I mean, does it make sense to think about maybe buying wholesale cheaper or actually buying the end distribution, you're buying a brokerage in some form of fashion just to have more access throughout the food chain?

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

Look I mean, it can and obviously last year, we publicly announced that we were considering an investment in ARC, right? Which we ultimately didn't conclude because for other reasons. But the bottom line is yes. And then there are other platforms like that we're -- that we continue to look at and study. So opportunistically at the right price, if we can find that, certainly we would rather buy an existing platform depending on price versus build. So whenever we hire and invest. We always do a buy/sell analysis in there. And by the way, there are opportunities like that, none quite the size of ARC. But on a smaller basis that we're actually considering right now.

Operator

Your next question comes from Ken Worthington of JPMorgan.

Kenneth Brooks Worthington
JP Morgan Chase & Co, Research Division

Maybe Josh, wanted to talk a little bit about the seizures work data [ph] and really about what it means for the value of your ownership? I think there's 2 public share classes that you owned. And then was any of the impact of the work data [ph] reflected in the 3Q marks or is it really been -- will it really be reflected in 4Q?

Martin Kelly
Chief Financial Officer

Ken, it's Martin. I'll cover it. So we have a signed term sheet. It's subject to confirmation and that will take some time. We own, as you said 2 classes of shares. Within our September numbers, we reflected a relinquishment of the shares in the entertainment company. So we mark them down to 0, that's included within the Fund VI marks. And then, we continue to own the shares in the acquisition company, marked at the public price.

Kenneth Brooks Worthington

JP Morgan Chase & Co, Research Division

Okay. Okay. Great, perfect. And then I apologize, if this was asked. I didn't quite catch it. But in terms of costs, the cost in credit came down quite a bit. Particularly in comp-$10 million and then other expenses were down a little bit too. Why were the comp costs much lower? And again, I apologize if that was asked previously.

Martin Kelly
Chief Financial Officer

Sure so I guess, I mean, if you look at comp on a year-on-year basis, comp is up a couple of percent, headcount's up a couple of percent. So it's sort of in line. The tick down reflects where we are now relative to year-end comp decisions, both in terms of 2 of the quantum and the mix of how comp will be delivered to people. And so as you look forward into Q4, I would expect comp to be sort of at or around maybe slightly up from these levels. There's obviously moving parts. We're not done with the process. But that's sort of the high-level piece.

Operator

Your next question comes from Robert Lee of KBW.

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

I guess, first question I have is just a question on the real estate business. I mean, obviously, last couple of quarters it's been a little bit better contributor to results, but I guess, my sense is that generally, that's maybe some of a disappointment to what your aspirations were several years ago. So you maybe just update us on what you're thinking about in kind of your real estate franchise. How you're thinking about the opportunities to accelerate growth.

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

Yes, I mean, I think that there are 2 components to our real estate business. One is debt and one is equity. The debt business continues to grow nicely. What's happened is that the equity business is comprised of an organic opportunity fund that we raised that's relatively small size for us, plus some co-invests under kind of $1 billion there. And then the run off of the Citibank, way back there, we acquired -- I think it was like 4 or 5 -- it was $1 billion [ph] of assets from Citigroup and so those are running off now. And when you see the real estate -- when you see the real estate business, you're kind of not, you're seeing all those pieces, kind of, in the mix. And therefore, the overall business looks a little flatter than maybe the underlying growth in the debt business. The other thing is we did -- we are in the middle of raising an Asian real estate private equity firm -- fund, which would be our first entrance into that region from a real estate point of view. Or first organic entry, the city portfolio did have some Asian real estate. So the net-net, net of it is it's growing a little faster than it would appear in the overall AUM. Having said all that it's not really -- it's not significant enough. It's too small and what we're -- and in order to grow it organically it'll continue to be relatively slow growth. And therefore, we are pretty -- as we said in the past, we are, like, actively looking at where there might be some acquisition opportunities in the real estate business that would make it more significant to our company and so that's the way that I would describe it.

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

Okay. And then maybe, Martin, can you just kind of update us on where the -- where we are, the escrow on Funds, I guess, is VI and VII?

Martin Kelly
Chief Financial Officer

Sure. So across our -- well I guess, VI's escrow ratio dipped a bit further this quarter. It's now mid- to high 70s. And so it has a decent amount of appreciation to get back into sort of a cash-carrying mode. VII, given some specific markdowns on a handful of investments including some privates, the escrow ratio also dropped to about 100%. So that's sort of teetering on the edge of callback but not technically there right now.

Gary M. Stein
Head of Corporate Communications

Yes. Just if you want the specifics, Page 14, the first footnote has the actual escrow amounts but right in line with what Martin said.

Operator

Your next question comes from Craig Siegenthaler of Crédit Suisse.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

Can you provide an update on AAME? It sounded like they might be raising some fee-earning AUM pretty soon in the last call?

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

Yes, I mean, I'd say that we continue to make progress on AAME and what we've done is obviously put together -- build out the investment team and just to restate a little bit what we said on the call last time, between all of our portfolio companies and certain other financial investments. Investments in financial institutions in Europe, we've combined -- we're managing quite a bit of assets. Approximately $15 billion of assets and so each of these entities, and there were multiple entities, had their own teams. And what we thought would make sense would be to create an overall team that had significantly more breadth and understanding of the market as well as understanding of our particular expertise and to increase returns in AAME and in the European entities and that was going to benefit both organic investors as well as our portfolio companies. And so, we're building out that team. It doesn't happen overnight. We've made a number of hires and invested in that team. Relative to kind of new investments and net income, so far like that has -- it's not material to our results. And so I would think about this right now as operating as a cost plus we do get reimbursed for the cost. But eventually, we do hope to add assets and so. But right now, that's still a work in process.

Craig William Siegenthaler
Crédit Suisse AG, Research Division

And then just as my follow-up. As of the last quarter, I think Athene was marked on 1.2x booked. I'm just wondered if you can update us on where it was valued as of 9/30?

Martin Kelly
Chief Financial Officer

Sure, it's Martin. So we marked it up from $3,640 [ph] to $3,750 [ph]. That considered public comps and company-specific factors and the market is still at 1.2x booked ex OCI [ph].

Operator

Your next question comes from Brian Bedell of Deutsche Bank.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Martin, can you just walk through the -- just remind us again of the fee rate dynamics between Fund VIII and Fund IX, assuming that time line is driven in terms of the fundraising for IX. At what time do you step down in the fee rate on Fund VIII, and when Fund IX kicks into full gear? And then what the rates on those would be?

Martin Kelly
Chief Financial Officer

Sure. So Brian, so Fund VIII today averages around, on a fully blended basis, about 1.1% on committed [ph]. When Fund IX turns its fees on, it will then step down to 75 basis points on -- then invested. And so that won't be quite the full amount of the $18 billion because we always hold back a bit at the end for foreign investments. So we won't turn Fund IX on until Fund VIII is fully invested. So that's the unknown for us. We can raise the money and have it closed, but not turn the fees on until they get off Fund VIII. But they should happen simultaneously.

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

Right. And I mean just to give some context around it, we've invested 65% of that fund in a little over 3 years, right. So if we traditionally hold back 10% to 15%, you can do that math and again, that's not necessarily. Historical results are not necessarily predictive of how we're going to do in the future. But it gives you a sense of like the run rate and you can do the math.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Right. So 90% -- say 90% invested, you would consider that fully invested and you give...

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

Yes, so I give you -- right. So if you think about a year or so that would be kind of the math and so kind of like when we said in the press release affecting 2018. That's how we -- that's sort of the backup to that statement.

Operator

Your next question comes from Chris Harris of Wells Fargo.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

So looking at your carry-generating AUM, pretty big spike up in credit. I was a little surprised with this though because I think in your last presentation, the appreciation required to achieve carry was like 19%. So can you help me square that? I know, obviously, you guys didn't generate 19% return in credit in the quarter. Is that like an average number? Is that what's going on?

Martin Kelly
Chief Financial Officer

Yes, Chris, I think the number you're quoting is for a certain number of funds that are more than CSAL [ph]. So the headline is, it's a very strong quarter from a carry-generating perspective and within credit of the $40 billion of money that's in the ground invested, eligible for carry, we now have $32 billion, up from $26 billion. And up from sort of the mid-teens a year or so ago. Most of that increase has come in the liquid performing parts of the credit business. And so then I guess to your question, you then say what's left? What's the other $8 billion, which is in the earnings release and we stratify it by the appreciation that's needed to get that into carry. About $2 billion of that is within 150 bps of getting into carry and then the remainder has a large gap to get into carry. And I think the number you're referencing is that last piece of it.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Yes, okay. It just -- it looked like that last piece was about $14 billion in Q2 and that's moved to $8 billion roughly that I think...

Gary M. Stein
Head of Corporate Communications

Yes, that's a sum total. And I think what Martin's saying is you need to sort of break into the 2 buckets. There's a drawdown bucket, which does need a meaningful amount of appreciation to get into carry and that right now is sitting at around $4 billion of assets. But there's this other bucket of liquid performing and a fair bit of that has what moved into carry this quarter. Kind of didn't need nearly as much appreciation to get there, but overall, you're right. There's 19% but that's a blend of the drawdown and the liquid performing, so you need to split them out.

Operator

Your next question comes from Chris Kotowski of Oppenheimer.

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

There were about $500 million of realizations in Fund VIII, but we didn't see anything in -- when we ran our geologic poll. So I wonder if you can give some color on that. And then secondly, is that money still recyclable, or are you beyond that?

Gary M. Stein
Head of Corporate Communications

Yes, we're not sure where the Fund VIII realization figure's coming from. There weren't any realizations out of Fund VIII during the quarter.

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

Oh because -- well, if I'm looking at Page 27 and the realized value says $806 million and the comparable disclosure at 30 June said $302 million.

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

Yes. So we did a -- I believe that it was this quarter, we did a dividend recapitalization of Saint-Gobain, a glass company, we own in Europe and I believe that's what it is. I think it would be -- I mean, the reason you're not seeing it on geologic is likely that -- the other part of it is likely to be selling debt securities, where we, kind of there's realization on the profit, and we recycle the principal amount. So it's probably -- my guess, again, we'll come back to you, but it's going to be the combination of those things. It will be re-caps and debt securities in the marketplace, that wouldn't necessarily show up on geologic.

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

And can you recycle that?

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

You can -- okay, so you can recycle within 18 months of the -- if you sell something within 18 months of the initial invest, then you can recycle the principal. But generally, you'll get a relaxation on the profit. So it would be -- depend on like kind of that.

Gary M. Stein
Head of Corporate Communications

Yes. As Josh said, we can dig in and circle back to you on that.

Operator

Your next question comes from Alex Blostein of Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Wanted to follow-up on just the outlook for realizations broadly. You're obviously deploying very actively, but at the same time it sounds like you continue to think the market's broadly, pretty fairly valued. So should be pretty decent time to sell. So I guess taking a step back, outlook on realizations and also more importantly, which products do you guys anticipate to be the bigger contributors to cash incentive fees as we kind of progress over the next 12 to 18 months.

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

Yes. So I would say that it is a good realization environment and we're -- our gross returns in Fund VIII are quite good and so the reality is we are going to be looking to realize as these investments mature. Having said that, the average investment in Fund VIII, which is the bulk of the private equity portfolio increasingly, is only a year. And so these investments are likely to need to season a bit longer, and so that's the sort of balance that you have. And in Funds VI and VII and predecessor funds, there are a series of investments that are more mature that are on the table from a realization point of view. So that's kind of where we are, which I think means that realizations -- and then credit is -- we do think that this is a very good -- we are generating cash incentive out of credit. It's smaller than the large private equity fund. So I think what all that means is that while it's a good realization environment, our realizations are likely to come over time. Because most of our portfolio -- and the credit side of it will be kind of -- sort of -- kind of on a more consistent basis, and you can look at the latest quarter or 2 and just sort of build from there. But in T [ph], we're going to need a little bit of seasoning for the most part.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Got it. And then just a quick follow-up around Fund IX. I heard you guys on management fee and the rates there. But any change of structure with respect to transaction fees, monitoring fees and things like that? I want to make sure we didn't miss that.

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

No -- we're still working on -- we haven't really disclosed like what we're going to do on terms and we're still working through that. But I wouldn't expect it to be a negative.

Operator

Your next question comes from Glenn Schorr of Evercore ISI.

Kaimon Bryan Chung
Evercore ISI, Research Division

This is Kaimon Chung in for Glenn Schorr. You mentioned last year's ARC deal and I think I heard you say you're currently looking at some similar deals now. Can you just expand upon that? Are you looking at stuff -- similar stuff with the same appetite for those complexities. And just want to get you updated view on the nontraded REIT space feels crowded though one of your biggest peers into that space usually [ph]?

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

Yes, I mean, we can't really talk about specific unannounced deals. Having said that -- I'll give you broad -- I'll tell you that was a widely complexity deal, so widely. And so it would be very atypical like to be looking at something that complicated. So rest easy. And then on the nontraded REIT space, I mean, we're always looking at lots of different things and I can't really -- we can't really orient in a public way around specific things that we're looking at unfortunately for obvious reasons.

Kaimon Bryan Chung
Evercore ISI, Research Division

Okay. Just one quick follow-up if I may. Just on the energy investing, you've been cautious to deploy capital given the dry power out there. Though it seems looks like some of your competitors are increasingly more active there. Can you just give me your updating views on where you see potential opportunity and where you're avoiding?

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

In terms of private equity or?

Kaimon Bryan Chung
Evercore ISI, Research Division

Equity investment, yes. Equity on the debt side too.

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

I mean, I spent a lot of time early in the call going through like how we're sourcing at very low multiples relative -- The private equity business as in general, is very fully valued. It's actually the highest -- I said that the multiples are approaching 11x. That's the highest ever. And leverage actually -- interestingly even though it's available, given pullback of the banks it's following. It's falling from the high 5s into the low 5s multiple of EBITDA. And so the private equity -- you can do the math, right? Like higher price, maturing cycle, lower leverage yields lower returns. But for us, we're performing quite well against that. In terms of energy deployment, I'd say that there are opportunities -- the pressure in oil prices has created an opportunity in energy. We are -- certainly that's what drove our second natural resource fund, so we expect a lot of that to be North American energy. It hasn't -- and so we're deploying that nicely. And so we do see that as being a very interesting sector because we think that the fundamentals for higher prices in the energy markets are going to be there over the time frame that we invest. And we can hedge and we're seeing value-based investment opportunities flow our way because there's a lot of people that just need to sell because they're leveraged and dealing with the drop in energy prices that occurred over the last few years.

Operator

Your next question comes from Michael Cyprys of Morgan Stanley.

Michael J. Cyprys
Morgan Stanley, Research Division

Just curious on Fund VIII, you mentioned you had some monetization events in the fund this quarter. But didn't seem like you took any cash carry per se on that. Just curious what your approach is for taking cash carry out of Fund VIII?

Martin Kelly
Chief Financial Officer

So we need to be above 115% on escrow to take out any cash carry. We're now at 115% using the September 30 marks. But getting cash out is depending on -- dependent on holding that and sort of taking into account what you're selling. So if you sell a higher ROIC [ph] deal that hurts the ratio. And so -- so it will come. It's probably going to take a bit more time though.

Michael J. Cyprys
Morgan Stanley, Research Division

Okay. And then just a follow-up on energy, Fund IX do we -- Fund VIII, do we know how much is that energy in that fund?

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

Yes, it's between 15% and 28%. Essentially natural gas -- if you include all like natural gas and oil and everything.

Michael J. Cyprys
Morgan Stanley, Research Division

Got it. Okay. And just one last one on the tax rate, how we should be thinking about that for the fourth quarter and into next year. Seems like it's a little bit higher this quarter?

Martin Kelly
Chief Financial Officer

Sure, so the tax rate for the quarter is sort of in the range of what we talked about the E&I tax rate. It was off a bit this quarter, given the mix of income coming out of the Incentive Business and that itself is driven by energy, which can tend to be taxable income and credit. Credits carry was up as you saw from the numbers. Within that the portion of taxable credit income was also up. So it's a bit of a mix issue within the Incentive Business between taxable and nontaxable. And that sort of, that increased the rate by a bit. So it's hard to predict, where it's going to be going forward, right. We have pretty good clarity on the management company. Incentive companies based on marks and the mix of those marks between taxable and nontaxable. So the only way to sort of predict that is over -- over a much longer time horizon.

Gary M. Stein
Head of Corporate Communications

And just before we conclude the call, I just want to clarify back to Chris Kotowski question earlier about the $500 million change in realizations during the quarter. That was primarily from Verallia, as Josh said. We also had a little bit from Ventia, which is the former laden [ph] corporate carve-out in Australia and a little bit from debt security.

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

The recap's in Ventia and Verallia and then selling debt securities as discussed.

Operator

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

Gary M. Stein
Head of Corporate Communications

Great. Thanks very much operator, and thanks, everyone, for joining us this morning. As I said earlier, if you have any questions, please feel free to circle back to me or Noah Gunn. And we'll look forward to talking to you, again, the next quarter.

Operator
Thank you for your participation in today's conference. This does conclude today's call. You may now disconnect.