S&P Capital IQ

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Apollo Global Management, LLC NYSE:APO

FQ2 2014 Earnings Call Transcripts

Wednesday, August 06, 2014 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.66	0.52	(21.21 %)	0.72	2.67	2.70
Revenue (mm)	601.50	572.15	(4.88 %)	597.29	2344.73	2427.40

Currency: USD

Consensus as of Aug-05-2014 4:28 PM GMT

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

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.50	0.50	0.00 %
FQ3 2013	0.94	1.34	42.55 %
FQ4 2013	0.81	1.06	30.86 %
FQ1 2014	0.58	0.55	(5.17 %)

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Presentation

Operator

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

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

Gary M. Stein
Head of Corporate Communications

Thanks, operator, and welcome, everyone. Joining me today from Apollo are Leon Black, Chairman and CEO; Josh Harris, Senior Managing Director; and Martin Kelly, Chief Financial Officer.

Earlier this morning, Apollo reported non-GAAP, after-tax economic net income of $0.52 per share, and we also declared a cash distribution of $0.46 per share for the second quarter of 2014. For U.S. GAAP purposes, we reported net income attributable to Apollo Global Management of $70 million for the second quarter of 2014 compared to $59 million for the second quarter of 2013.

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

We'll also be discussing certain non-GAAP measures on this call, such as economic net income and distributable earnings, which are reconciled to our GAAP net income attributable to Class A shareholders. These reconciliations are included in our second quarter earnings press release, which is available in the Investor Relations section of our website. Please also refer to our most recent 10-K for additional information on non-GAAP measures and risk factors relating to our business.

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

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

Leon D. Black
Founding Partner, Chairman & CEO

Thanks, Gary, and good morning, everyone. Our results this morning contain a number of highlights that I'd like to briefly summarize. First, we remain active in monetizing our portfolio and delivering strong returns to our investors. The funds we manage generated more than $240 million of realized carry during the second quarter, which in addition to our strong Management Business, was the primary driver of our $0.46 cash distribution. The private equity transactions driving the realized carry were completed in average multiple invested capital of 3.4x, reinforcing our best-in-class track record in private equity.

Secondly, we remain active in deploying capital in a variety of differentiated investment opportunity. Interestingly, the $6 billion of capital return to our limited partners during the first half of the year from strong realization activity was more than equalized by a steady pace of deployment. Across our platform, the funds we manage invested or committed more than $7 billion of capital during that same timeframe, reflecting continued activity in private equity and strong relative activity in our Credit and Real Estate businesses.

And lastly, our fund raising efforts, our origination capability in identifying new business opportunities, and our solid investment performance continue to drive our business to new heights. To put some numbers around it, our AUM is up 48% year-over-year to a record $168 billion, while fee-paying AUM is up 64% year-over-year to $130 billion, also a record.

Next, we thought it would be helpful for Josh and I to address a couple of areas that we believe are top of mind. 2 questions we've received a lot lately are: How are you going to deploy Fund VIII in the current business environment; and how are you going to continue to grow your Credit business? We clearly understand why these questions are pertinent today, and we'd like to share our perspectives on these important topics.

First, on deployment in our Private Equity business. We are very confident in our ability to deploy Fund VIII within its investment period and we're already well on our way to doing that. In fact, as I'll describe in further detail, we've already invested or committed nearly 15% of Fund VIII to date. Strong markets have generally driven up pricing and average purchase multiples in the U.S. are very close to the 2007 peaks. In Europe, they're even higher than in the U.S. So how do we, as a value-oriented investor who generally invests in the 5 to the 7x enterprise value to EBITDA range, operate in a 9 to 10x world.

As I've said before, we remain patient, disciplined and committed to a strategy that's delivered the best investment performance since inception in private equity among all our public peers by a sizable margin. We won't continue to achieve the kind of results we aim to deliver for our investors by following the pack. We know that well. So instead, we pursue idiosyncratic off-the-beaten-path opportunities where we can leverage our deep sector knowledge and our credit expertise to capture and build value on behalf of our investors. We believe purchase price is one of the greatest determinants of investment performance. And so if that means waiting longer for opportunities, we will happily wait.

We are very aware that the market will measure us quarter-to-quarter, year-to-year, but our focus is on a much longer period of time. As a reminder, we have 6 years to deploy Fund VIII. Consider for a moment how much can change over that period of time.

6 years ago, this month in fact, from August 2008 to the lows in March 2009, the U.S. stock market declined more than 50% in just over 6 months and brought world equity markets along for the ride. That August was the precipice before Fannie, Freddie, Lehman, WaMu and TARP, a chain of events not foreseen by anybody at that time. To be clear, we're not projecting that kind of financial catastrophe to recur, but my point in mentioning this is to illustrate that markets move in cycles. Some shorter, some longer, some more severe than others, but the constant is that they always happen, and we at Apollo believe that we are particularly skilled at navigating through these cycles.

There have been 4 economic downturns since our inception in 1990, and 6 out of 7 of our private equity funds have participated in a distressed cycle. Armed with what we believe is the best investment team in the business, flexible investment mandates and plenty of dry powder from our fund investors who continue to reward us for our discipline and performance, we feel we are very well-positioned to survey the investing landscape over the coming years and pick our spots wisely. And that's exactly what we intend to do.

Right now, one of our favorite spots is in the energy sector. We announced 3 deals in the second quarter alone, all targeting different geographies or verticals within that sector. In many cases, these deals reflect a combination of our investing capability and veteran management teams that possess specialized local, technical, geological and engineering expertise to selectively acquire specific assets, or in some cases, hold businesses for large companies. As such, many of these transactions are more nuanced and the commitments we're making have multi-quarter deployment timelines based upon the identification of attractive assets rather than one finite close date. So while we've reported approximately $1 billion in deployment by the PE funds we manage through the first half of 2014, these platform deals at energy are driving a pipeline of an additional $2.2 billion that's been committed, and that we expect will be deployed over the next 12 months or so, including $750 million that is expected to fund in the third quarter with the anticipated closing of the Jupiter Resources transaction.

In addition to energy, we're selectively seeing opportunities in other sectors and this is partially being driven by dialogues with strategic on-the-heels-of-rising corporate M&A activity. It's worth noting that heightened M&A activity can be a catalyst for deployment activity as corporates look to shed non-core assets or business lines in connection with an M&A transaction or to help fund a strategic deal. Since we are one of the most active and experienced dealmakers in corporate carve-outs, we believe we are well positioned to benefit from this increase in activity. Currently, the level of dialogue around these opportunities is more active than we've seen in quite some time.

I would just add another area that we feel we're very proficient in is in doing very complex deals with hair on them, and we're also seeing a lot of activity in those areas right now too in selected industries that we cover.

In summary, we've invested or committed nearly 15% of Fund VIII in 6 transactions through June 30, just 6 months since the fund held its line of close. Importantly, we are sticking to our discipline. The average entry multiple for those deals is approximately 6x versus the double-digit industry backdrop multiple I mentioned earlier. We believe this speaks to our team's ability to pivot across industries and geographies to find value in challenging markets and to deliver it to our investors.

I'd now like to pass the call over to Josh to provide you with some insights on our Credit business. Josh?

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

Thanks, Leon, and hello, everyone. We understand many of you are focused on the growth opportunities in our Credit business going forward.

Clearly, Credit is our fastest-growing business segment with approximately $106 billion in AUM and a compound annual growth rate of 47% over the past 5 years. You may have heard us mention this previously, but I'd like to reiterate that from our standpoint, we believe that our Credit business has plenty of runway and can grow significantly from where it is today. So how do we get there?

Our growth story in Credit is two-fold. First, we have tremendous opportunity to scale our existing strategies and explore new ones that are adjacent to our overall investment approach. And secondly, our growth opportunity with Athene is truly differentiated. We're continuing to operate amid a backdrop of 3 major credit themes, which will go on for a long, long time, including the impact of secular change from financial reregulation, the deleveraging of bank balance sheets globally, particularly in Europe, and continued investor demand for yield and opportunistic credit in a low-rate environment. These market dynamics are enabling us to step into pockets of the credit markets, such as shipping or aircraft leasing, which have historically been occupied by more traditional providers of capital. These types of opportunities require specialized expertise and deep credit underwriting skills, which play to the strength of Apollo's integrated global platform and private equity capabilities.

In addition, as banks continue to shrink, we're benefiting from the opportunity to selectively acquire dedicated talent to expand in other areas of the credit market, such as emerging markets, corporate debt and energy mezzanine. In the aggregate, these silos of the market I'm highlighting are massive in size, and we're barely scratching the surface in many of them.

Similar to private equity, we think credit markets overall are priced to perfection. Spreads are at near or all-time highs -- tight, and clearly it's a challenging market to find yield, but our team is finding it. Not surprisingly, our credit professionals are using a similar approach to what you'll find in our Private Equity business, a rigorous approach to research-driven proprietary deal origination, the ability to quickly shift towards high conviction ideas and the distinct evaluation of relative value across asset classes and geographies. All of this work on the investment side is then coupled with solution-driven dialogues we're having with our global LP biz, such as pension fund, sovereign wealth funds and high net worth and retail distribution channels. We work closely with these investors to identify areas where we can match up their targeted risk/return and liquidity objectives with Apollo's range of credit strategies and skills, which spans the yield and opportunistic spectrum.

In total, our Credit business raised approximately $3 billion during the second quarter, including Athene's private placement, which I'll speak to in a moment.

As we have highlighted previously, strategic managed accounts, of which we now manage more than $15 billion of AUM in the aggregate continue to be an area of growth for us. Not only are we seeing interest for new mandates, 2 which funded in the second quarter totaling $925 million, but we're also seeing certain investors with pre-existing accounts increase the size of those mandates as we have successfully deployed their initial capital and met their return targets. Importantly, the dialogue for add-on or new commitments remains quite active.

On the funds side in credit, we're actively in the market with several products in which we raised approximately $800 million in aggregate during the quarter. Half of that total was driven by Credit Opportunity Fund III or COF III, which is focused on illiquid credit opportunities sourced across the Apollo platform. The $400 million raised during the quarter brings total fund commitments of -- to $1.5 billion to date, with additional near-term commitments expected to take the fund up to more than $2.5 billion. It's interesting to note that several hundred million dollars of the commitments to COF III have been raised to high net worth distribution platforms of 2 leading global flat [ph] banks.

We also continue to leverage our strong position in the CLO market where according to S&P, Apollo's the largest CLO manager in the United States as measured by assets under management.

In addition, we're proud to note that according to Creditflux, the CLOs managed by Apollo delivered the highest equity returns and nearly 26% among all CLO managers, underscoring our commitment to delivering outstanding investment performance to our clients.

During the second quarter, we priced a $1.5 billion U.S. CLO, which we believe is the largest CLO transaction since the financial crisis, and the fourth largest CLO of all time. During the second quarter, we also priced our second European CLO totaling more than EUR 380 million.

Briefly moving onto Athene. Clearly, this has been a tremendous growth driver for us, and we've set the company to continue to grow for many years to come. Extraordinarily, this company was just an idea in 2009 and today, it is a highly-rated fixed indexed annuity insurance company with a $60 billion balance sheet. Athene is a powerful example of Apollo's ability to identify a differentiated investment opportunity in the marketplace often before many others, and maximize its potential to achieve a remarkable outcome.

As you know, we assisted Athene in raising more than $1 billion of third party equity capital, which closed in the second quarter from a diverse group of distinguished institutional investors. Athene will use this capital for several purposes including reinvesting in their business to strengthen their organic distribution platform, bolster their balance sheet to further improve their ratings us and as well [indiscernible] inorganic growth opportunities that are sensible for the business.

As Athene executes its ongoing growth strategy, we intend to continue to provide them with what we believe are attractive investment opportunities sourced across our platform, as we do with our other investors. While this may not necessarily add new AUM to Apollo, this effort should help us to grow the amount of assets we're directly managing for Athene over time and be additive to our earnings and margins.

One last point I'd like to make about our Credit business before turning it over to Martin, is in response to concerns we've been hearing relating to potential impact of rising rates on our Credit business. Out of more than $100 billion of credit AUM, our funds meant very little in the way of rate-sensitive assets, that is to say treasuries, munis and investment grade bonds with longer duration. In fact, we have an intentionally large exposure to floating rate assets. And so we welcome a rising interest rate environment and believe would be beneficial to our investment performance. Moreover, if rates were to rise at a quicker pace than expected, we believe any resulting dislocation would further benefit our returns as we've historically outperformed in those scenarios. Any dislocation would also likely result in more rapid deployment of our drawdown credit and private equity fund, which tend to generate higher management and incentive fees. Given these points, we believe that any concerns about rising rates with respect to our business are misplaced.

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

Martin Kelly
Chief Financial Officer

Thanks, Josh, and good morning again, everyone. Within our press release this quarter, you have likely noticed our yearly introduced disclosure of distributable earnings or DE, which we feel provides great transparency into the cash earnings profile of our business, and more closely aligns our reporting with a similar metric reported by peers.

As a reminder, our distribution policy is to payout substantially all of our net after-tax cash flow from operations or DE in excess of amounts named appropriate to run our business.

If you look back over our recent history with ratios [ph] disclosed since the beginning of last year, you'll see that our quarterly payout ratio on DE has averaged approximately 88%. As it relates to the second quarter, as previously mentioned, our cash distribution declared was $0.46 per share, which includes our regular distribution of $0.15, plus $0.31 of other cash earnings. The additional amount above our regular distribution was primarily driven by carried interest ran from a handful of transactions, including secondary and/or block share sales of Berry Plastics, Rexnord, Sprouts Farmers Markets and Brit PLC. Subsequent to these transactions, the funds we manage hold the following shares: Fund VI held 21.6 million shares of Rexnord and 37.7 million shares of Sprouts; and Fund VII held 116.9 million shares of Brit. Based upon announced or settled transactions from our Private Equity funds since the beginning of July, including the share sales of Athlon and the remainder of Athlon's holdings of Berry Plastics, as well as the dividend from McGraw-Hill and price aids from the CLO refinancing Josh described. We have realized approximately $0.31 per share of net realized carried interest so far in the third quarter.

Turning to our Management Business. For the second quarter, Apollo's Management Business earned $132 million of ENI versus $152 million in the first quarter of 2014. The quarter-over-quarter decrease was mainly driven by lower advisory and transaction fees, which were down $55 million primarily due to the absence of a number of specific items we've highlighted last quarter, which in aggregate amount to approximately $47 million.

Regarding expenses, second quarter compensation was sequentially lower primarily due to the absence of the first quarter accelerated vesting charge related to our former president. Excluding this charge from the prior quarter, compensation costs were up approximately $9 million sequentially in the second quarter, reflecting continued headcount growth, including asset management. Non-compensation expenses of $5 million were higher during the quarter, reflecting an uptick in placement fees and interest expense. As Josh mentioned, we're actively raising products in our credit segment that could drive incremental placement fees in the second half of the year.

As I mentioned on our last call, going forward, we will continue to strategically invest in the business by adding talent and capabilities to facilitate additional growth. And as we achieve an increasing amount of scale, we expect our margins to benefit over time.

Turning to our Incentive Business. In terms of the performance of our Private Equity funds, our traditional Private Equity funds appreciated by approximately 5% during the second quarter, which was driven by 6% appreciation in publicly traded portfolio holdings and 4% appreciation in private holdings. Over the last 12 months, our Private Equity funds appreciated by approximately 36%.

You may have noticed that our profit sharing expense ratios within the Incentive Business were elevated in the second quarter. This is primarily driven by 2 items. The first is the dynamic around which funds drive carried interest in any given quarter. While our long-term blended profit share rate, excluding the incentive pool, is expected to be in the low- and mid-40% range, in any quarter, this could be higher or lower since each fund has a specific profit sharing percentage that may be above, below or within that range.

During the second quarter, Fund VII, which has a higher profit share ratio, appreciated; while Fund VI, which has a lower profit share, depreciated. Similar to the first quarter, this combination contributed to the elevated profit share ratio in the second quarter. Second, as we have noted in prior quarters, there was a discretionary incentive for compensation accrual in the quarter of approximately $12 million within the Incentive Business. As a reminder, this incentive pool is separate from fund level profit sharing and serves to incentivize certain partners and employees, and can have a variable impact on the profit share ratio during a particular quarter.

Moving on to taxes. Our second quarter effective tax rate on ENI was 22%. Our ENI tax provision includes current taxes and an accrual for future taxes due on current ENI. Our calculation also assumes full conversion of AOG units into Class A shares. Our effective tax rate reflects a full year estimate of taxable income, which itself considers the relative earnings contributions of our Management and Incentive Businesses. The relative mix of these businesses continues to evolve with the growth to come.

Besides a growing contribution from our Management Business, taxable carry during the quarter within fee and credit contributed to the higher rate. There are some investments within the funds we manage that generate taxable carried interest and it tends to arise in certain credit vehicles, as well as in some energy deals within the PE business. So depending on the mix of the deals or funds driving carry, the movement can also have a meaningful impact on our blended tax rate in a particular quarter.

Also included within our ENI taxes of $59.5 million for the second quarter is approximately $20 million of taxes attributable to the Athene capital and surplus fee. The marginal impact of the Athene CNS fee to our effective tax rate is approximately 4%.

Next, I'd like to provide some additional information on Athene's impact on our results this quarter. First, the percentage of Athene-related assets invested in Apollo managed funds was approximately 17% as of June 30, 2014. Although this percentage is in line with the March 31 level, the absolute dollar amount of Athene's total assets, as well as the sub-advised assets grew during the quarter. As we have stated previously, we expect the sub-advised assets under management to increase gradually over time as long as we continue to perform well in providing asset management services to Athene, and also identify appropriate and attractive opportunities to redeploy their investment portfolio.

Next, Apollo has been receiving, and will receive for 2 more quarters, monitoring fees also known as the CNS fee, but will ultimately be received in the form of common shares of Athene. For the second quarter, this fee was $52 million. As you can see in our DE reconciliation, while this fee is additive to ENI, it is accrued as a noncash item and is impacted from distributable earning. As it relates to the CNS fee earned in 6 months ended June 2014, this fee is being settled on a quarterly basis in arrears in the form of additional shares of Athene based on its per-share valuation at the end of each quarter, and will appear as incremental value on our balance sheet going forward.

As of the end of the second quarter, Apollo had a 5.8% economic ownership interest in Athene. This includes earned CNS and related fees through the first quarter of 2014, as well as Apollo's general profit stake as the manager of AP Alternative Assets or AAA. In dollar terms, Apollo's economic interests is valued at $262 million on their balance sheet as of June 30. Note that this amount excludes the $121 million gross carry receivable related to AAA as of June 30 and $53 million of CNS and related fees earned in the second quarter that we also expect to be paid in shares of Athene at a future date.

Lastly, I'd like to highlight that on May 30, an indirect subsidiary of Apollo Global Management issued $500 million in senior senior notes at a coupon rate of 4%. We used the proceeds to pay down $250 million of our term loan, with the remaining capital to be used for general corporate purposes.

Supported by strong credit ratings from S&P and Fitch and robust demand from institutional investors, this inaugural 144A debt offering allowed us to create a long-term capital structure at an attractive fixed-rate and establish a benchmark if we choose to access this market again in the future.

After this bond issuance, our liquidity profile remains strong with $1 billion in total debt outstanding, $1.1 billion in cash and a $500 million undrawn revolver. Since our bond deal was completed 2 months into the quarter, the company expects our run rate interest expense to increase by nearly $3 million in the third quarter to approximately $7.5 million in third quarter.
With that, we'll turn the call back to the operator, and open up the line for any of your questions.

Question and Answer

Operator

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

We'll move on to our next question. It comes from the line of Devin Ryan of JMP Securities.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Appreciate the detail on the investing outlook and particularly around Fund VIII. I just want some color. I mean, are you guys having to get more creative around how you source deals and maybe structured some transactions differently in this environment? I appreciate all the color that you gave. But just to meet the objectives that you guys have and how stringent they are, whether that be in private equity or in credit, it sounds like maybe some of that's going on in the energy space but maybe -- love a little bit of an update on that outlook.

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

Yes. And then, I think, obviously, as the environment and the multiples go up as the environment gets, from a valuation standpoint, higher and higher, it gets harder over time. And I think generally, the complexity of the deals that you're doing have to be -- you have to be looking under a lot more stones. I mean, there's no question. So that's kind of one thing.

I tell you, certainly, we are getting better at our craft over the years. The energy vertical we developed -- 6 years ago, we didn't have a huge business energy, now we do. We brought a bunch of energy professionals. We built a series of management teams all over in North America. And now, we're taking advantage of that.

And so, we're constantly looking at, to use a hockey analogy, where the puck is going versus where is it today and try to figure out where are the arbitrages going to be. And I'd say that today, the arbitrages are generally, even with the overvaluation environment, is certainly in North America in energy. If you have the skills and expertise, you can take advantage of low prices as the massive supply of assets and massive investment opportunity from the Shell phenomena here serves things up. But I think, generally -- so I'd say over time, those are our long term trends. Short run, we're doing what we've always done, which is to go where others aren't. So -- but certainly, it gets harder in this environment.

Leon D. Black
Founding Partner, Chairman & CEO

I'd just like to add to that. This isn't a new phenomenon. If you look at the environment of our past Fund VII, which is a $15 billion fund, the average multiple being paid by our industry then was about 9x. I like to say that when I look at the track record we set with Fund VII, we've put the $15 billion to work in that environment and it was a 30% net return on that and about a 2.4x. But what we are most proud of is that it was put to work at a 6.1x multiple so that we were actually taking less risk and still setting best-in-class returns, that is what we are about.

And so when we say today, yes, the multiples have gone from 9x to 9.5x, it's not like this is a new phenomenon that we're unfamiliar with. So the combination of being able to switch from corporate carve-outs to idiosyncratic complex deals.

And then finally, as I said earlier in the prepared remarks, in 6 of our 7 funds, because we have a 6-year investment statute on each fund, we've been able to also capture distressed opportunities because of cycles generally happening historically within a 6-year period. So the fact that we've already put 15% to work in the new fund, then it's only really 6 months since it closed, makes us feel very comfortable with being able to maintain and sustain our model.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Okay, great, appreciate all the detail there. And then, just the follow with the respect to the additional, I guess, incentive pool comp noted and -- can you give any more detail of actually how much of that was? And then, was that tied to a specific event? Did it reflect any catch up? I'm assuming that it was probably more elevated that it will be going forward, so I'm just trying to get some more context around how much it was and why it came in this quarter?

Martin Kelly
Chief Financial Officer

So let me address the different components of the profit share. So overall, we have a 58% profit share ratio for the quarter. Within fee, that's 62%, and within credit, that's 48%.

Within PE, that's driven by the 2 factors that I highlighted on the call. One is in predominantly mixed between Fund VI and VII. And secondly is the incentive pool, which is a discretionary year-to-year program whereby an amount of carry can discretionary be put aside to pay investment furnishes [ph] and other people.

Within credit, we had -- the profit share was somewhat elevated this quarter, really for the reason that we had a onetime adjustment in our credit incentive plan. And if you remember last quarter, we introduced a new compensation plan in credit, which had a onetime cost associated with it. It was a slight incremental cost that we incurred in the second quarter. Excluding that, the profit share in credit was about 42%, and that reflects the allocated points on all the funds that contributed to the carry.

Devin Patrick Ryan
JMP Securities LLC, Research Division

Right. But -- and just -- but to sum up, because there's a lot of puts and takes, certainly, when you have -- quarter-to-quarter, the ratio's going to vary up and down because if you have funds with higher profit share that go up and funds with lower profit share that go down, you get strange results. But we would expect our long term -- as Martin said in his remarks, we'd expect our long-term blended profit share rate, including incentive pool, to be in the low 40%, low- to mid-40%. So we don't -- we feel like this is not going to be a recurring, even though it's happened in the last 2 quarters, because you've seen 6 go down and 7 go up, we don't expect that to continue, there's no reason for that to continue. It just happened to be that it happened 2 quarters in a row.

Operator

Our next question comes from the line of Brennan Hawken of UBS.

Brent John Thill
UBS Investment Bank, Research Division

This is Brent Thill on for Brennan. I just wanted to ask, so you've talked about investing in liquid and complex activities. So what are beyond the implications of holding those kinds of investments, just in terms of earnings volatility quarter-to-quarter, especially given the lower multiple investors seem to put on the alternative asset managers.

Leon D. Black
Founding Partner, Chairman & CEO

I'm sorry, the electronics were cutting in and out. Can you just repeat that, please?

Brent John Thill
UBS Investment Bank, Research Division

Sure. So you spoke about just finding better deployment opportunities and you've looked particularly at liquid and complex kind of scenarios. So what are the implications of holding those kinds of investments in terms of earnings volatility quarter-to-quarter? Especially given the lower multiple investors seem to put on the alternative asset managers and just the heightened volatility that might create in earnings?

Martin Kelly
Chief Financial Officer

So, we -- anything that's not publicly traded or quoted is subject to evaluation process which we go through each quarter. And we look at a variety of different valuation methods depending on the sector and the type of investment. And so -- and that reflects a long-term view on cash flows or ultimate value in our exit from that position. And so.

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

But I think to break it down in credit, I think first of all, we have the highest percentage of any of the publicly traded alternative managers of liquid-based securities. So the market marks us, it is what it does like we happen to have. So when we talk about illiquid and complicated, I think we're talking about relative in credit, certainly we're talking about relative to the bond market, in the bank market, so what we're trying to do is create off-to-run opportunities that add 300 to 500 -- add premium to the returns, typically 300 basis points and up for the same amount of risk. To do that, those securities are generally less liquid. And so I can't -- relative -- are those more volatile than the liquid securities? I think it kind of depends on the market environment. Sometimes, they are, sometimes they're not. If you look at the sell off in the last week, what sold off was the big liquid names that were saleable. A lot of times the illiquid names aren't saleable and they don't move as much. So I'm not sure I would draw that conclusion. Relative to PE, we're buying things that lower multiples generally than our peers, so we're buying more value-oriented companies. In some cases, growth-oriented companies get hit harder. In some cases, more value-oriented companies get hit harder. And so, again, I think it kind of depends on the market environment, whether we're going to be more or less volatile relative to our peers. So I think that -- I don't know if that clarifies what you're asking but...

Operator

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

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Just a quick follow-up on the profit share, just to make sure that I'm kind of getting the concept right. If you have a similar situation with Fund VII and Fund VI, I mean, they both appreciate in value just the same. Is it just safe to assume that your profit share is going to be constant from where it is today? And then, related to that, what is going to be impact on that as Fund VIII starts to become more material in size?

Martin Kelly
Chief Financial Officer

So on the first part of the question, if both funds either appreciate or depreciate, then you could average the profit share on a straight-line basis. But if one is making money and one is losing money but on a net basis you make money, which is what happened both this quarter and last quarter, then the combination of that mathematically creates a very high profit share ratio placed on that carry. When we talk about our long-term expected profit share ratio, that incorporates what we expect Fund VIII to do and how it will contribute to the earnings profile of the firm and it also incorporates the new credit incentive plan that we discussed last quarter, which is a sort of -- across the credit platform compensation plan whereby all credit professionals participate in a common carry pool.

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

Fund VIII is, when we say, low to mid-40s, Fund VIII is squarely actually in the lower end of that range. So the Fund VIII ought to sort of push it towards that long-term ratio. And so that -- hope that helps.

Christopher Meo Harris
Wells Fargo Securities, LLC, Research Division

Yes, that does and I appreciate that. Then my follow-up, I guess would be, a bit of a hypothetical question. I know you guys probably don't like answering those, but I'll ask anyways. I appreciate all the comments about being ready for a downturn and I think it's pretty reasonable to assume that we might get one sometime over the next 5 or 6 years as you're investing Fund VIII. But let's say over the next couple of years or so, we don't get much change to the valuations in the marketplace. Do you guys feel like this is kind of where the run rate for the investing pace would be under that scenario? Or do you think maybe given some of the things you talked about in the comments, there might be opportunities to take it up a little bit more than where it is today?

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

I think it's hard -- I mean, it's hard to answer your question. I mean, I'd say, so -- we're a year into our -- even though we closed. We're in a year into our investment period 6 months ago, we're a year into our investment period. We've invested 15% of the fund. So 6 times 15 is 90. So just that our current...

Leon D. Black
Founding Partner, Chairman & CEO

But 15% -- excuse me for interrupting, which were for the first 6 months...

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

No, it's for a year. [indiscernible] It started from the first quarter.

So 15 times 6 is 90. So at our current pace, we'll invest the Fund. So it's -- the ebb and the flow of the deal environment is highly unpredictable, certainly. So I guess, that's the way I'd answer that. I mean, I think at current pace, we'll invest in the Fund in 6 years or in just about 6 years. So I think if the environment continued this way, that would probably be the answer without -- at current run rate. Hard to know whether it gets better or worse.

Operator

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

William R Katz
Citigroup Inc, Research Division

You mentioned that you're having some good success in the high-network channel. Just sort of wondering, as you look out over the next 6 to 12 months, how that pipeline might look for incremental products, and which products those might be.

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

There's a huge demand in the high-net worth channel for credit, for sort of both the opportunistic and investment-grade credit where literally we say to people, look, we're -- we have a number of fund offerings in the marketplace where we say,"look, we'll give you for the same risk, if you want to single B risk, if you want BB risk, if you want BBB risk, we'll give you for that same unit of risk, 300 to 500 basis points of excess return." That's our pitch and what you have to give us is you have to give -- you have to be willing to give us a little bit of illiquidity. You have to lock up your capital, and we'll also give you shorter duration relative to index. And so that pitch, because everyone knows or people that are sensible believe that rates might go up, that pitch resonates with the retail sector, people are looking for that type of investment opportunity. So that is, I'd say, it's in credit and it's broadly across the spectrum in credit depending on what the investors would like. And it's -- by the way, it's a channel we're committed to and we're really investing in the infrastructure to be able to expand our offerings there.

William R Katz
Citigroup Inc, Research Division

Yes, that's helpful. The follow-up question is, listen, this roll forward between the first and second quarter, a big percentage of your new assets were co-investment vehicles both in the private equity and in the credit. So I'm curious if you just saw a step back. You mentioned that you're very good success in terms of these larger strategic mandates. Just sort of review the economics of that -- of those assets relative to legacy business. I presume the lower fee would maybe higher margin, is that a fair way to think about it?

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

It's all over the map. I mean, I'm not sure like there -- it can be all over the map. It depends specifically on the investment type. So I don't know how to really address that, it's too broad of a question. So, I'm sorry.

Operator

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

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

First, I just want to -- thanks for the added disclosure on the DE. I think it's helpful. I have a question on capital formation. I just want to touch a little bit on real estate. I mean, what are your thoughts there? I mean, if I'm looking at it correctly, looks like the debt fund in real estate is pretty fully invested. So is that a strategy you're in the market with now? Maybe that wasn't incorporate into your comments on credits in general. And then I'll just have a follow-up from that.

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

The debt -- a lot of the debt stuff, certainly, first of all, is related to that stuff we're managing for Athene in terms of structured credit. Maybe a number of public vehicles that are constantly raising capital. And then there are some other funds that are not fully invested. Certainly, our European nonperforming loan fund has capacity and it is investing in real estate. So I think it's -- I think we're going to continue to grow the real estate credit business. We see that as part of our right in our strike zone relative to our integrated platform with real estate private equity and everything we're doing relative to buying things from banks that are either re-regulating or kind of overleveraged. On the equity side, we're nearly fully invested in our real estate private equity fund and we are going to enter the market shortly with another fund. And expect that the first fund -- I mean, the latest fund is not quite well. And we expect the next fund to be incrementally larger and successful. So I think where -- real estate is an area that we're committed to and investing in. And certainly when you look at the size of real estate and you look at the profitability, which you all can see, it's not adding a lot to our bottom line right now. We get that, but there will be a lot of operating leverage going forward and we expect that to change over time.

Martin Kelly
Chief Financial Officer

It's Martin. I just want to go back, actually, and just make a clarification on the prior question, and I'm sorry to cut you off. On the co-invest question, the roll forward shows $2.5 million this quarter. That was co-invest money that was raised in prior quarters, and we revised our definition of AO this quarter to conform with what we see as industry practice. So it's not new dollars this quarter, it's a definitional change.

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

No problem. And maybe just as a follow-up. In thinking about business expansion and obviously you've talked about credit and real estate, some of your peers have also expanded their alternative platforms and building out fund-of-funds capabilities and things like that. So can you maybe just update us on your thoughts or if there's any appetite. I know you had, I guess, you had that small investment in that Australian fund-of-funds business, but what are your thoughts are in expansion into a different alternative marketplace?

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

We're certainly looking at each other. I mean, credit is such a -- it's not that we would never rule anything out and we're highly opportunistic. But we just see such potential in credit in terms of the size of our platform relative to the size of the opportunity out there and the size of the deleveraging going on and the number of assets that are coming out and the demand of our client base and our brand name and our expertise. So we feel like we were pretty focused right now on our existing 3 platforms, which is private equity, real estate and credit, would you see all of those opportunities.

Operator

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

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Just a focus a little bit more on the topic you talked about, Josh, on this concept of disintermediating banks, to some extent, given the regulatory changes into deleveraging. Can you talk maybe a little bit more granularly about the different products that, that -- into different vehicles that you have in which you think we'll see the biggest growth. If you can talk about anything standing from the NPL funds to any direct lending opportunities, as well as Europe versus the U.S? And then just the CLO assets under management, if you could quantify that number as well?

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

Okay, yes. So yes, I mean, I'd say, certainly, Europe, the biggest -- the acutest pain right now is in Europe relative to the size of the banks and the need for them to get smaller and certainly we are growing our business in Europe. We're also growing in the U.S. but -- and it starts with, certainly, nonperforming loans, residential loans, consumer, receivable, commercial loan, and then, it's trust for control situation, it's buying debt in the marketplace. We have vehicles that are opportunistic credit vehicles where we're doing direct lending, we're buying debt in the marketplace. Each of our vehicle is broadly mandated because we think that, that is the way to think about the world and limiting people to specific securities we don't think works. So the way I would describe our vehicles would be to bucket them in terms of low, medium and high risk. We have, in essence, a BBB vehicle. We have a BB vehicle. And then we have opportunistic vehicles. And each of those have return criteria -- 6 to 8, 10 to 12, and then 12 to 18. And when you compare those to the underlying indexes, you can do the math in your own head, that we're trying to generate significant access return of our clients. So I would say, it's really broadly mandated. The thing I haven't mentioned is structured credit, which, for the most part, we also think it's an interesting opportunity, particularly for insurance companies. So there's a lot of demand for that credit in Athene and otherwise. And so it's pretty broad. So I don't know if that was -- answered your question but that's probably the right way to put it.

Brian Bertram Bedell
Deutsche Bank AG, Research Division

Yes, that was very helpful. Maybe there's a way -- I'm not sure if we can quantify this, but within your Private Equity vehicles and the flexible mandate that you have. Do you have a sense of to what extent you can think of Fund VIII as part of this -- you'll be investing in these types of themes within Fund VIII?

Joshua J. Harris

Co-Founder, Senior MD & Director

Well, Fund VIII -- Fund VIII, historically our private equity vehicles have been 40% originated. They're ultimately control vehicles, right, where we want to end up with the equity. But when you think about that can start off as a debt investment for an equity investment and historically over the years, when you take the overall average, it's been about 40% of our overall private equity dollars. Certainly Fund VIII is starting off way lower than that. We haven't quantified it, but it's way lower than that. And that's a function of the fact that the environment is dealing it right now. There's a lot of liquidity and the stress isn't as good of a business -- it's not -- there's not a lot of value in distress right now, there's no value. But we're finding value in other areas that we've talked about. So I mean, I don't know how to quantify where Fund VIII will end up other than to tell you that the average has been 40. It's been as high as 80 in the early '90s. And 7 was in the mid-50s. And then it's been lower for certain funds. So 40 is probably the best I can do on a long run average basis and it's starting off slow.

Operator

Our next question comes from the line of Dina Shin of Crédit Suisse.

Yeoji Shin
Crédit Suisse AG, Research Division

As you mentioned, we see Apollo being very active in partnering with local firms with an expertise in certain areas with the energy sector. When you think about build versus buy, what makes you to get more involved with platform investments, particularly in energy versus buying the entire company, like how you do in PE where you take the majority of ownership?

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

It's purchase price, where there's value and where you find value, you need the management expertise almost whether you're buying the company or you're buying individual assets and creating a company. When we -- if you went back 3, 4 years ago, the value was in these buildups, right now what we're seeing more of is that the public markets are being quite discerning on companies that own multiple basins. And they're valuing them at lower multiples and so there's a lot of pressure on companies to shed assets and become more pure plays. And so as a result, we're seeing a lot of value and this is all directional. We're seeing more value in division than actual divisions of companies where big, big companies are shedding divisions and we just announced a transaction with Encana, which is a very large Canadian company just like that, where they're shedding division and I don't -- I suspect that we're entered towards becoming more of a pure play because they see it -- that as the way to create value for their shareholders, but that's a trend that's going on across the industry.

Yeoji Shin
Crédit Suisse AG, Research Division

Okay, got it. And also another question on the incentive income and the Private Equity section. We've seen negative unrealized income for the past 4 out of 6 quarters in the PE segment as Apollo's harvesting more than what's getting accrued right now. And so given this trend, how should we think about the cash earnings generation power over the next 12 to 18 months?

Martin Kelly
Chief Financial Officer

So I would break that into a couple of different pieces. One is the management company, which is growing. And if you look at the new DE table, and if you look at the 6 months of this year versus last year, cash earnings are about $250 million versus $150 million last year. So as we continue to grow our credit business and as we focus on margins, that will improve the cash earnings of the management company. The Credit business is -- if you look back in time and you look at realized versus unrealized changes quarter-on-quarter, and certainly, if you look in the last 4 quarters, we're averaging around $89 of carry per quarter coming out of credit and there's different contributors to that. EPF is now paying a larger role, but that's not a flatline sustainable number. But that's the average that we're seeing. And if you look at PE, there are simple ways to frame that, that we have $22 billion of PE money on the ground. And that equates to -- across the whole fund that equates to about $2.70 of carry per share at June 30. And so -- and then we have Fund VI and VII, which are at different sort of stages of maturity in terms of the percentage of their assets that are public. So there's a robust amount of unrealized carry that's yet to be monetized and that will take quarters and years to do. At the same time, we're investing Fund VIII and at the same time, we expect that $22 billion to continue to appreciate in value over the term.

Operator

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

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

Leon, can you talk about the asset allocation policies, some of your LPs. Where are you seeing if there's this is opportunity coming from credit and maybe private debt. What bucket do you think this is coming out of? I mean, is this coming from the core sort of the core fixed income allocation or where do you see these assets being sourced from?

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

Yes, I think, I'm sorry, it's really coming from both. So I'd say that for a long, long time, you would show up at the pension funds and you would try to talk about opportunistic --I will start with opportunistic. You would try to opportunistic -- just try to talk about opportunistic credit and you'd start with the PE group, the alternatives group, and they'd tell you, what are the returns? Well their turns are low to mid-teens. Okay, we don't -- that's too low. Go to the fixed income guy, you go to the fixed income guys and they'd tell you, we don't really do that. We invest off of indexes. We do-- we'll buy investment-grade bonds. And so it was really caught in the middle of these institutions and no one was focusing on it. What's happened recently is that CIOs have said, wait a second, interest rates are really low, we have a duration -- a fixed income portfolio with long duration and when treasuries go up, this thing is going to get killed, and so what we're going to do we needed ways out of that. And the equity markets are high, we're very nervous. And so the asset allocation in general has been 50, 40, 10, 50% fixed income 40%, stocks 10% alternatives. That's all -- it's all shifting towards alternatives. Alternatives themselves are growing. Alternatives have doubled in the last 5 or 6 years depending on what stat you look at from 6 to 12 or 7 to 15, depending on what the stats are. At the same time, within the context of the fixed income buckets, some of the things are now doing relative to sort of bank debt, relative to structured credit, relative to our total return fund product, which is an investment-grade, fixed-income product, which has less liquidity. I mean, all of these things are coming out of the fixed income bucket. So I'd say, it's all of the above and it's really about solution selling to the CIO and solving a problem for these institutions and one after another and after another, you're seeing institutions wake up and want this type of product, which is why we say, there's such opportunity for us in credit because there's just -- they're starting to fall like dominoes, whether it'd be sovereigns, whether it be U.S. pension system now. Now it's the high net worth channels. So everyone is waking up and saying, "This is a great place to hide in what we see as a possible storm coming. We can make good money relative to fixed income, but we have downside protection and we're not taking equity risk.

Leon D. Black
Founding Partner, Chairman & CEO

Yes, just putting in a little bit -- along the same lines but in different words, I mean, you look at the world today and you look at all the institutional capital that's out there and how much of the pension community is still underfunded and sitting with an 8% bogey, the whole credit world, the high rated credit world, just doesn't get them there. I mean, you look at where we are treasuries. You look at investment grade. So you have a real challenge to most of the CIOs and to be able to come to them and say, if you look at all asset classes, #1, private equity is one of the only ones and maybe the only one that's consistently, over 20 years, has beaten that bogey. And you come to them also with the credit argument that Josh has gave that there are a lot of different categories and what we've tried to do basically is to create a Chinese menu of different products and some of them maybe fixed rate, and some of maybe more inflation hedges with roving rates that go up with indices. I think that, that is the great selling point right now for us. I mean, if you ask about asset allocation on private equity, the world has become very bifurcated. The really good performers are getting a lot of money. The ones who aren't, they're having to shrink their funds. We've been very fortunate to be in the first category because we've been able to consistently generate best-in-class returns. I love this. I'm going to read it, it was The Wall Street Journal article last week that came out and Preqin, the data provider basically said that APO, Apollo Global, is the loan representative of the large publicly traded firms to make it into the list of roughly 3 dozen buyout firms which have consistently outperformed their peers. Now that basically has translated into us being one of the few that also increased the size of our Private Equity funds, and that does not go unnoticed by investors who are trying to beat that 8% bogey, but we've never done worse than 9% or 10% in our 24-year history. Likewise, in credit, we've created a whole range of products, some in the 6 to 8 range at a very senior level unlevered up to NPLs in Europe into the mid- to high-teens. And in between, there are a dozen different products. So if you look at your original question on asset allocation, it really comes in all colors and sizes. The fact that we now have all these managed accounts, $15 billion, some of them basically give us a carte blanche and say, "just give us where you think you're going to be able to find the best opportunities to do better than 13%. You choose." Others have specifically said, "we just want to be in European credit." And so forth, and then you get down to something more granular, which is in the managed account but where they say we choose this product on your Chinese menu. But given the disintermediation that's going on with the banks and a few investment banks that are left and given that need by all the capital out there, and given the fact that the sovereigns are really flush with money amount that they also, all these wins, they're really playing in very much in our favor.

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

And just to give you a sense of size, the banking sector, as we added up globally, is about $100 trillion. The pension system asset, they're $60 trillion. If you look at publicly traded alternatives with credit businesses, you try to add up all the credit money that you can find, it's less than $500 billion. So $0.5 trillion. So the size of the -- when I talk about the size of the opportunity, it's in the context of those numbers. And it's just starting.

Operator

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

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Just a question on the realization outlook. So the vast majority of your portfolio is liquid. I think the net accrued carry is around $3, and the performance is good. So when I think about the timing, does anything change as the credit part of the business is a bigger contributor, meaning, should we think about longer or shorter duration in terms of realizing that accrued carry? And then on the Private Equity side, are there any restrictions in terms of secondary restrictions that would limit you taking advantage of the opportunity either to realize that carry or just the normal opportunistic based on the market backdrop?

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

I mean, so credit is very different in Private Equity. Private Equity, you put money on the ground, you weigh, you build value, base case 5 years later, it comes out of the ground sometimes a lot faster and you've made to point in our case 2.5x your money. Credit is literally, you put money in the ground, you merely get interest expense and maybe you -- the duration of buying and selling is much more rapid. So I think you can think about credit almost as, and we haven't -- we should -- I don't know what the averages are but it's very, very quick. And it will be more normalized, more recurrent subject to normalize market conditions. And so certainly, thinking about those 2 components very differently in terms of their predictability. I mean, certainly, most of the income command of credit is interest expense and that's a highly predictable. So I'd say that those are very different. There are no restrictions on what we can do or can't do. We are be able to realize and when we feel like it, in certain cases, for a very small number of our funds, we have -- there are reinvestment funds where the traffic it's reinvested or whatever but that's a very small percentage of what we do. Mark, I don't know if you want to add anything.

Operator

Our final question comes from the line of Amanda Yao of JPMorgan.

Amanda Yao
JP Morgan Chase & Co, Research Division

Synergy and CSV [ph] to name a couple. Can you just touch on the greater use of JV and partnerships to invest capital? How are these deals structured and do you see greater focus placed on pursuing partnerships going forward?

Leon D. Black
Founding Partner, Chairman & CEO

I'm sorry, we lost the first half of your question. Do you think you could just repeat it, please?

Amanda Yao
JP Morgan Chase & Co, Research Division

Absolutely. The partnerships that were announced this quarter, Synergy and CSV [ph], Just to name a few, can you just touch on the greater use of JVs and partnerships to invest capital?

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

Right. So I would say that in the energy space, you need financial expertise, but you also need teams of scientists, landmen, reserve engineers, petroleum experts. And so the use of partnerships is likely to be very high in the energy space. Even if you're buying a division of a company, you're usually doing that with people that can help you understand the assets better than you can, better than you're situated. So while -- as we mentioned, North American energy is a big part of what we're doing right now because of that happens to be where the value is today. And so you're seeing a lot of partnerships and to the extent we're doing more North American energy, you'll see a lot of partnerships, we certainly do use partnerships in pretty much every other area of our PE business, it's just not as important, and the percentages are much lower and, therefore, you don't hear about it as much. But certainly with a focus on North American energy, you'll see more announcements with this sort of partnership added expertise being the driving force.

Amanda Yao
JP Morgan Chase & Co, Research Division

And just a follow-up of that, can you talk a little bit more about how these deals are structured?

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

Yes, I mean, they're structured as, we put up the bulk of the capital but the management teams and the partners put ups a bunch of the capital also. In some cases, the assets are contributed but usually not. And then -- so they're provided some incremental incentive based on the returns that are good for our LPs.

For example, as management is pointing out, this is how Athlon started. Athlon is now a very successful deal for Apollo and highly successful public company. It started up literally, we sat around with the team, there were no assets and we agreed on a partnership structure with them, and then we started looking at things, with our expertise being capital and strategic oversight, and financing and capital structure and their oversight being managing the day-to-day operations in evaluating reserves and managing the business. And so literally now this is a huge company.

Operator

And thank you. That was our final question. I would now like to turn the floor back over to Mr. Gary Stein for any additional or closing remarks.

Gary M. Stein
Head of Corporate Communications

Thanks, operator. Thanks, everyone, for joining today. If you have any follow-up questions, please feel free to follow up with Noah Gunn or myself. Thanks, again.

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