

31-Jul-2019

Apollo Global Management LLC (APO)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

Gary M. Stein

Head-Corporate Communications, Apollo Global Management LLC

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

OTHER PARTICIPANTS

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Devin Ryan

Analyst, JMP Securities LLC

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Patrick Davitt

Analyst, Autonomous Research US LP

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Gerald Edward O'Hara

Analyst, Jefferies LLC

Christopher Harris

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Apollo Global Management's Second Quarter 2019 Earnings Conference Call. During today's presentation, all callers will be placed in a listen-only mode and following management's prepared remarks, the conference call will be opened for questions. This conference call is being recorded.

This call may include forward-looking statements and projection which do not guarantee future events or performance. Please refer to Apollo's most recent SEC filings for risk factors related to these statements.

Apollo will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in Apollo's earnings presentation, which is available on the company's website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer of purchase an interest in any Apollo Fund.

I would not like to turn the call over to Gary Stein, Head of Corporate Communications.

Gary M. Stein

Head-Corporate Communications, Apollo Global Management LLC

Great. Thanks, operator. Welcome to our second quarter earnings call. Joining me this morning are Leon Black, Chairman and Chief Executive Officer; and Martin Kelly, Chief Financial Officer and Co-Chief Operating Officer. Our Co-Presidents, Scott Kleinman and Jim Zelter are also here with us and will be available during the Q&A portion of today's call.

Earlier this morning, we reported distributable earnings of \$0.56 per share which led to a cash distribution of \$0.50 per share for the second quarter. The quarter's distributable earnings were primarily driven by pre-tax fee-related earnings or FRE of \$0.58 per share. As a reminder, we'll be hosting an Investor Day on November 7, and we look forward to sharing more details with you in the near future.

With that, I'll turn the call over to Leon Black.

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

Thanks, Gary. And thank you all for joining us. I'd like to focus my remarks this morning on a handful of topics starting with Apollo's ability to generate a stable and growing stream of cash earnings through a variety of market conditions. Next, I'd like to highlight some strategic capital transactions announced during the quarter and provide you with some details on our approach towards responsible investing in conjunction with the report we published yesterday. Finally, I'd like to give you an update on our C-Corp conversion which we announced during our prior earnings call. From there, Martin will discuss current quarter results and forward drivers of growth for Apollo before we take your questions.

Over the past 12 months, we have seen significant volatility across various equity and debt markets, including a 20% decline from peak to trough in the S&P 500 before a rebound above prior market highs. Also more than 200 basis points of widening in high yield bond spreads before recovering to pre-stress levels. And finally a U.S.

market interest rate consensus which has swung quickly from expecting more rate hikes to now anticipating multiple rate cuts.

In contrast to these fluctuations over the last year, Apollo has continued to demonstrate steady growth in AUM, which has reached \$312 billion, reflecting a 16% increase from the prior year with strong visibility into future growth led by Athora's pending acquisition of VIVAT. This AUM growth has been driven by strong fund raising and a substantial base of permanent and long dated capital. Over the past 12 months, gross inflows have totaled \$65 billion and we have deployed \$15 billion across our commitment-based funds alone. Together, this has driven \$51 billion of inflows to fee generating AUM.

Against the volatile market backdrop during the last four quarters, our management fees have grown during every quarter, reaching \$1.4 billion for 12 months ended June 30, 2019 supported by strong fund raising and very modest sensitivity to interest rate and credit market movements. This growth in management fees combined with an ongoing focus on expense control has resulted in fee-related earnings of \$901 million over the same period, representing 35% growth over the prior year. We believe this significant growth reinforces the strength of our robust business model, which has enabled us to deliver durable and growing fee-related earnings throughout market cycles.

Looking ahead, we expect to continue to generate this robust FRE growth through a combination of our organic capital raising and strategic capital initiatives. The funds we manage also have approximately \$44 billion of dry powder. Approximately half of which will begin to earn fees as capital is invested, providing some visibility into FRE growth just from the AUM we already have available across our platform today.

In addition to the strong tailwinds we see in FRE, we expect performance fees to become a much larger contributor to earnings over the next few years as we begin to monetize the substantial portion of the 32 portfolio companies in Private Equity Fund VIII assuming markets remain accommodating. We believe the powerful combination of continued strong FRE growth and a significant increase in performance fees should set the stage for meaningful earnings and distribution growth ahead.

Now, I'd like to highlight two strategic capital events that will be additive to our earnings over the intermediate term. Last month, Athora which is one of Apollo's strategic capital initiatives focused on consolidating the European life insurance market. And it signed an agreement to acquire the life insurance business VIVAT, a Dutch insurer. This transformative transaction which is akin to Athene's 2013 acquisition of Aviva USA in terms of its scale will more than triple Athora's assets under management. The acquisition is expected to close in the first quarter of 2020 subject to customary closing conditions, including regulatory approvals. VIVAT represents a significant step in the expansion of Athora's platform adding size and scale, a new geographic market, and organic growth capabilities in the important Dutch market.

Importantly, we continue to see significant opportunity for future growth in European insurance. In addition, we continue to raise capital for the Athene/Apollo Dedicated Investment Program or ADIP, a vehicle which will invest side by side with Athene for sizable insurance acquisitions, as well as pension risk transfer and other transactions. To-date we have closed on nearly \$1.5 billion of commitments and we are targeting \$4 billion of commitments in total by year-end.

My remarks up to this point have been focused on certain strategic capital initiatives, as well as the strong economic results that Apollo has generated throughout the years. I also want to spend a few moments discussing our firm's longstanding commitment to responsible investing. Last night, we published our 10th annual ESG report highlighting a decade of consideration into how environmental, social and governance or ESG issues impact the

firm, the companies in which Apollo managed funds invest, the communities in which they operate and the world at large.

At Apollo, we believe in the importance of incorporating ESG factors into our investment management strategy and have worked closely with the portfolio companies of the private equity funds we manage to help introduce or implement best practices in many respects. The portfolio companies of the private equity funds we manage employ more than 350,000 employees in aggregate and a firm with a combined revenue of all these companies would rank as the 33rd largest company among the S&P 500. Together, these companies have employed more than 15,000 veterans. During 2018 alone, the companies made charitable donations of nearly \$300 million and their employees volunteered more than 120,000 hours. These are just a handful of many constructive items highlighted in our ESG report which we are excited to now make available to everybody on Apollo's website.

Lastly, as Apollo approaches its conversion from a publicly traded partnership to a C-corporation, we look forward to sharing our exceptional 29-year growth story with a broader set of investors. As we noted on our last earnings call, we continue to expect that our conversion will take place during the third quarter following the receipt of regulatory approvals.

As a reminder, we believe our conversion to a C-Corp can create a number of benefits for shareholders, including one, a simplified structure and the elimination of the K-1 form; two, enhanced liquidity and the potential for reduced volatility for our stock; three, the potential for inclusion in a number of indices, such as the CRSP, the MSCI and total market indices which is particularly important given the increasing flow of assets into index and passive funds; four as a C-Corp, we believe it will be easier for many new investors to own our stock; and finally, five we already have seen an increase in the valuation of APO, as well as the valuation of our peers that have already converted, and we believe that our conversion presents a further opportunity for value creation for all of our shareholders.

We believe our stock is a compelling investment at current valuations and we hope that with this conversion to a C-Corp we can continue to reduce the barriers to owning our stock and close the gap between where we trade today and where we see the true intrinsic value of Apollo.

With that, I'll hand it over to Martin to discuss Apollo's second quarter results and ongoing drivers for growth across the firm. Martin.

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

Great. Thanks, Leon and good morning, everyone. I'd like to start with the results for the quarter which we believe reinforce the strength and stability of our fee-related earnings, as well as continued growth and diversification across the Apollo franchise.

We reported distributable earnings of \$230 million or \$0.56 per share for the second quarter, driven primarily by fee-related earnings. Pre-tax fee-related earnings of \$239 million or \$0.58 per share were complemented by a modest amount of realized performance fees and realized investment income, principally generated by monetization activity in private equity and credit.

For the 12 months ended June 30, 2019, FRE totaled \$2.19 per share, reflecting 35% growth over the prior 12 month period. This growth was supported by 21% management fee growth over the same period and an emphasis on efficiency and cost discipline driving margin expansion, despite ongoing investment as we grow across each of our segments.

Revenues from management fees have comprised approximately 90% of our total fee-related revenues historically and have been supported by a durable base of fee generating assets under management, more than 90% of which is permanent capital or in funds with contractual life of five years or more at inception.

We remain focused on growing our FRE since it is a reliable source of cash each quarter, regardless of whether we have any significant realizations from the funds we manage. We declared a \$0.50 per Class A share cash distribution in a very light realization quarter, bringing the total Class A cash distribution for the 12 months ended June 30, 2019 to \$1.98 per share.

Advisory and transaction fees of \$31 million in the quarter included co-invest fees related to Hybrid Values, Direct ChassisLink transaction and some capital deployment in credit and real assets. Transaction fees can be variable on a quarterly basis since they are generally tied to the pace of capital deployment. However, for the last three years transaction and advisory fees have been more than \$100 million annually and we remain confident in our ability to put money to work with the value-oriented buyers despite generally elevated market buyers.

I want to note that during the quarter the long-term amended fee arrangement with Athene formally went into effect retroactive to January 1, 2019. As a reminder, Apollo has been recognizing management fees from Athene under the terms of the new fee arrangement since the first quarter and we have provided disclosures in connection with the revised arrangement on slide 10 of our earnings presentation.

Turning to investment performance, our net accrued performance fee balance grew 20% in the quarter, supported by positive marks across our credit, private equity and real assets businesses. In private equity, our fund's private portfolio company holdings appreciated by 4.1% during the quarter while the fund's public portfolio company depreciated by 0.9%. In aggregate, the private equity funds we managed appreciated by 2.5% during the quarter as revenue and EBITDA growth remained consistent with long-term trends. Fund VIII appreciated by 4.2% in the quarter bringing 2019 year-to-date appreciation to 8.9%.

In credit, we generated positive performance across the board with gross returns of 2.3% for corporate credit, 4% for structured credit, and 3.3% for direct origination, outperforming the S&P Leveraged Loan Index total return of 1.7% and the Merrill Lynch High Yield Index return of 2.6%. During the quarter, there was negligible impact to credit results from energy. And within our credit business, energy constitutes 2% of our credit AUM ex-Athene. In real assets, the aggregate appreciation across the portfolio, excluding real estate debt was 0.3% for the quarter and 4.8% for the 12 months ended June 30.

In capital management activities, we further strengthened our balance sheet liquidity profile during the quarter completing a \$325 million private placement secured by balance sheet assets and upsizing our prior debt offering by an additional \$125 million. Although we have an asset-light business model, we remain focused on optimizing our access to liquidity that we can use to take advantage of opportunities that may present themselves during the next downturn. In addition, we continue to buy back shares with the intention of immunizing share count from employee-related issuances.

I'd now like to move on to asset growth which forms the basis for growing management fees and ultimately fee-related earnings. During the second quarter, Apollo saw gross inflows of \$12 billion, primarily driven by Athene flows and capital raising across a number of credit and other funds. Over the last four quarters, gross inflows totaled \$65 billion during a period in which we did not raise a flagship private equity fund. And over that timeframe, we've grown AUM by 16% and fee-generating AUM by 17%. The robust level of asset raising we've

achieved is consistent with the growth trends we've been able to demonstrate not just over the past three or five years, but since our IPO eight years ago.

Looking ahead, we remain confident in our ability to drive strong AUM growth across the platform, fueled by fundraising across strategic capital initiatives and a variety of vehicles focused on strategies within each of our businesses, as well as ongoing capital raising for managed accounts.

With regard to deployment which remained robust in the second quarter, funds managed by Apollo put \$5 billion of capital to work across commitment-based funds. And over the 12 months ended June 30, capital deployment and commitment-based funds has been \$15 billion. This is in addition to capital we have put to work across managed accounts, evergreen funds and other investment structures, and in spite of a market environment in which valuations have remained elevated

During the quarter, Private Equity Fund IX closed on its acquisition of Smart & Final which marks the second time Apollo Funds have owned that business. Fund IX also announced to take private of Internet consumer retailer Shutterfly and the simultaneous acquisition of Snapfish as well as the acquisition of a number of radio stations and a national advertising business from Cox Media, which is in addition to the previously announced acquisition of Cox TV stations and other assets.

Our Hybrid Value Fund also closed on the acquisitions of Direct ChassisLink and Blume Global and combined with recent commitments Hybrid Value is now approximately 30% committed or invested after having just held its final close in March, reflecting the strong investment pipeline in place for our newest private equity strategy. Looking ahead, we continue to identify and evaluate an active pipeline of investment opportunities across a broad spectrum of asset classes and are optimistic about our ability to deploy capital at a solid pace in various market environments.

Finally, as it relates to realizations, we continue to expect that carry realized in 2019 will be higher than it was in 2018 and 2020 should be higher than 2019. We expect that 2019 exit activity in Fund VIII will be concentrated in Q4 and the carry from Fund VIII will be supplemented by the crystallization of carry in several credit funds.

With that, we'll now turn the call back to the operator and open the line for any of your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Our first question comes from line of Alex Blostein of Goldman Sachs.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, everybody.

Q

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

Good morning.

A

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Leon, I was hoping to touch – good morning. I was hoping to first touch on the lower interest rate environment and the pretty rapid change in expectations here. And just thinking about whether they could accelerate some of the insurance activity [indiscernible] (00:20:11) been waiting on for a little bit of time now whether with faster kind of risk transfers and fixed annuities or variable annuities or other kind of longer dated insurance products that could sort of accelerate some of the growth at some of your primary capital products?

Q

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

Alex, this is Jim Zelter. I would say, as you pointed out, there's been a pretty strong reversal in expectations from last fall. Interest rate rising to what's happening or what's proposed and was suggested today by the Fed in terms of lowering rates. I would say that we have been active in our acquisition pipeline. I do think that this rate environment overall and the success of companies that have made the decision to sell either fixed or variable annuities they've been rewarded by the equity market for making that call. But we're not seeing a dramatic shift in activity, it's – there's a strong pipeline. But I guess I wouldn't say that the change in the rate outlook dramatically has increased that since last fall. There's a variety of assets and products for sale. We've been successful in some of them in the U.S. and in Europe. But I think overall the rate environment, the dramatic change in expectations has not caused a rapid increase in the portfolios or the businesses lines for sale.

A

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

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Great. Thanks for taking my questions. Maybe going back to the conversion – I make this kind of a two-parter if I may. First thing is and I think you've talked about this previously, but some of your peers who've converted have changed their dividend policy to kind of more of a fixed quarterly reinvesting the rest or maybe year-end true-ups. So can you update us on your thinking on that around the conversion? And then second conversion question while understanding expectations is sometime this quarter, I just kind of curious why most of your peers were able to kind of pinpoint a specific date like June 1st or whatever may be kind of should we be thinking this is like last day of the quarter, first or the fourth? I'm just kind of trying to get a clearer sense of like an actual conversion date.

Q

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

A

Sure. Robert, it's Martin. I'll address [indiscernible] (00:22:47). So, with respect to the dividend, we don't expect any changes from what we've previously stated which is we expect to pay out substantially all of our cash earnings subject to what we need to, to retain to operate the business. We are constantly evaluating alternatives and meeting with shareholders and listening to opinions. And we run a balance sheet light model and we plan to continue that. And on balance, what we've heard is that the more favored form of capital return is through a higher payout than through repurchases. So that's our current position. We'll continue to evaluate it, but we don't plan to make any changes on that as we go through the conversion.

And then with respect to the date, we are subject to a couple of regulatory approvals which are a consequence of our affiliations with insurance companies. And so, we're confident that it will happen within or by the end of the third quarter. We're mindful of the rebalancing dates for the different indices in particular CRSP. And so, we continue to monitor that. But it's a process that is largely outside our control. And so, while we hope that we could get done before the CRSP rebalancing date, we don't have any particular clarity on that, but we expect to be done by the end of the third quarter.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. And if I could maybe do a quick follow-up maybe on Athene. And I know you guys have addressed this multiple times, but clearly there's some investor reticence or pushback against the Athene relationships. So could you maybe just help us again kind of walk through kind of how you view not just the fee structure versus kind of what's out there, but also maybe dive into a little bit more some of the other services maybe you're bringing to Athene that are not as widely appreciated whether it's the co-invest vehicle or M&A whatever it may be.

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

A

Great. This is Jim again. So I think that we have been consistent. The holistic broad historic relationship which has allowed Athene to be created 10 years ago and result in the company today it is multifold. Certainly, we add a lot of value when running the assets day-to-day, quarter-to-quarter and have done so and have provided a very strong return vis-à-vis the peers on a risk-adjusted basis. So first and foremost, we are an asset manager for them and we believe we've done a great job and added tremendous amount of value.

As you alluded to though, it's really a multifaceted relationship, certainly in terms of our ability to help them with capital structure and capital formation like we're doing what Leon mentioned in the Apollo/ Athene diversified insurance partnership. Creative ideas on how to give them capital that's competitive versus those of their peers. We have consistently provided vehicles which have allowed them to do that.

Secondly, I would say is the strategic M&A pipeline. There have been numerous transactions over the decade where either we at Apollo led in terms of the structuring, sourcing, and the analytical or even the ability to source exclusively whether it was the Lincoln transaction last year, the Voya transaction. So, we've time and time again been able to show great value on the formation of liabilities which has really led to the size of Athene today.

The third thing I would mention is the creative platforms that we've put together, exclusive platforms such as MidCap, such as our activities in aviation and a variety of other platforms, residential mortgages which has allowed them to really bring on assets vis-à-vis their peers in a scale manner offered to do so in a risk-adjusted basis which does not put risk on the balance sheet, but creates extra yield.

So, really the combination I've listed for there, so it's the asset management, it's the capital formation, it's the strategic M&A and advisory and then finally the platforms. And I'd be remiss if not talking about the overall risk and asset liability and other skills we provide. So, very holistic across the board and we look forward on November 7 getting into greater detail on all these activities.

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

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Good morning. Thanks for taking the question. So maybe just on the insurance side of the business, post the announced deal with Athora that increased the scale. Just how are you looking at or seeing the organic growth opportunity in Europe versus what we've seen Athene in the U.S. meaning just given maybe some of the differences and some of the complexities but what you have in place now? And then on the transaction side, whether it's in Europe or the U.S. has the opportunity set changed much? I think over the past you said there's been a handful of opportunities that you've been either in conversations or looking at. But with the rate environment, has that changed or has that actually accelerated that?

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

A

Well there's a bunch of questions in there. Let's separate them. I would say in the U.S. fairly active consistent pipeline over the last 12 to 18 months fixed, variable and a variety of other areas that have been mentioned are long-term care. We've been pretty judicious about processes. We've been very clear that what we like about – one of the benefits of our scale is that we can be a scale solution provider. So on a smaller more competitive transactions, we've probably shied away from those and have not leaned-in as much, but where we can provide like we did with Voya, a multitude of solutions to one counterparty, that's where we've really chosen to spend our time.

As you point out, the organic business in the fixed annuity business in the U.S. still quite strong. And certainly Athene can comment about that, but they've seen a steady growth in that business. And as someone pointed out earlier, the whole PRT sector we've made some nice head roads – inroads into that sector and have brought down a few transactions. And I think we'll continue to do so. So, with Athene in the U.S. there's a multitude of drivers organic PRT, different lines of business along with a pretty steady M&A pipeline.

Switching over to Europe, for the most part, we've really been focusing on the environment in terms of large scale acquisitions like Leon mentioned with VIVAT. The organic business is a bit different over there and I think in a broader forum in November we can get into that a little bit better. We're still in a regulatory approval process with that. But to your point I think that we'll be assuming that broader opportunities in the U.S. a multifaceted and Europe a little bit more of the M&A pipeline with some organic growth to follow.

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

Devin Ryan

Analyst, JMP Securities LLC

Q

Great. Good morning, everyone. So a question just on the credit side of the business. Obviously it was a nice quarter of investment performance, but realizations in the business have been a little bit lighter recently. So, maybe just if you can give us a little bit of perspective on the backdrop for some of the credit strategies, the

outlook for realizations in the business moving forward. And then also just kind of given some of the macros in credit, it would seem that potentially a little bit less opportunity given that the markets aren't quite dislocated. So, I'm just curious kind of where you are seeing pockets of opportunity to deploy capital there as well. Thank you.

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

A

Okay. So, just on the realizations, so there was a bit of internal – when Scott and I and Martin and the team have realigned some of our business lines, some of our principal real estate activities EPF have gone now into private equity, so a little bit of geography there. That vehicle still generates nice realization. So for the most part mostly – most of our realizations have been measured in that business. I mean we've capitalized on a lot of opportunities in that space in credit. So I think we're seeing steady opportunities, but we've been cautious in putting a variety of risk capital to work in the opportunistic funds in credit.

Broadly speaking in credit, we've remained cautious for the last couple of years. We've continued to upgrade the portfolio in our broad vehicles and at Athene. You've heard me mention before that on a typical year, the overall high yield and loan markets in terms of the new issue market, we historically had bought around 20% of the issues. If you look at the last six to 12 months, that number has continued to go down sub-15% of the market. And if you look at some of our flagship vehicles like TRF, the overlap versus loans and bonds versus the index is less than 10%. So we've certainly been striding away from the indexes and the beta risk.

I think when you think about credit right now, three ways that I evaluate it, I evaluate it technically, I evaluate at valuations and fundamentals. I mean I would say technicals remain extremely strong. A lot of solicitation from investors seeking solutions and good flows other than in the bank loan area which has been a lot of withdrawals of capital, not with us but in the markets because of rates. Valuations are certainly high in terms of overall valuations.

And I would say fundamentals when we listen to other portfolio companies in the credit side we're seeing a little bit more muted excitement from the CEOs and CFOs about future growth. So your little bit of cautionary wind, certainly, economic growth off the peak in the U.S. So we've been very much focused on top of the capital structure, senior notes – they have very little subordinated exposure. Same thing in our real estate debt business much more mortgages versus mezz. So we expect there will be a more cautionary environment have positioned ourselves, but we were very, very fleet of foot in the fourth quarter. We put a lot of money to work in senior loans, did quite well. And we're seeing the benefit of that this year with the compression in spreads.

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

A

And I might just add a little bit back on the first point. So in 2017, in credit, we did about \$0.30 per share of net carry. Last year it was less, it was about half that because of a tough Q4 in the markets. So when you sit back from the carry potential in credit, it's really driven by two things. One is sort of annual style – annual payout funds like hedge funds, which this year are doing very nicely and they're well above their return thresholds for carry payout. And then there's drawdown style funds like structured credit and life settlements and within real assets, our EPF business which depend on asset accumulation growth and monetization. So another way to sort of come at this is to refer back to the valuation framework that we published, which tries to sort of look at the carry generating potential of the platform and apply different return assumptions to that and then translate that into a carry potential per share.

Operator: Our next question comes from the line of Craig Siegenthaler of Credit Suisse.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Thanks. Good morning, everyone.

Q

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

Yeah. Good morning.

A

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

I wanted to hear your thoughts on the potential of changing your fee arrangement with Athora from a fixed rate to a tiered structure similar to what you did with Athene, which we think does a better job of compensating Apollo based on the return of risk profile for the underlying assets.

Q

James Charles Zelter

Co-President & Chief Investment Officer-Credit, Apollo Global Management LLC

So, let me start, maybe Martin may have a comment. But as you know we've had a evolution in our fee with Athene when it was a smaller balance sheet growing and the scale of services that we provide. This is really the Athene, Apollo Fee 3.0 which we're really in right now. And I would say that we're very – we think that that fee is well-structured and really aligns our short and long-term interest as fiduciaries and as partners.

A

With regard to Europe, it's a bit different because as you know you're not in a NAIC regulatory environment. You're really in Solvency II. As a result you have – the big core of your book is sovereign debt and which has a different fee construct. So, I think what you'll see is an evolution in our fee structure, as we grow Athora over time and we really fine tune the needs of their balance sheet in terms of the sovereign oversight which is really the duration, there's a big duration portion of that and then certainly the value-add in terms of our multi-credit solutions. So, I think you'll see evolution to that. But we're comfortable right now with how the Athora fee is structured. There is some different structure for some reimbursement. But overall, we think it suits us right now but certainly it will evolve overtime.

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

And I think I would just add. The Athora fee contract today is I would say it's sort of in between Athene 2.0 and 3.0 in the sense that there's a base fee component, which is lower, reflecting the asset construction in Europe. But there's also a scale to sub-advisory fee which is dependent on the asset classes that the sub-advised assets are put into. So it fits the profile of the platform today, but obviously it's subject to revision overtime.

A

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Thank you, Martin.

Q

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

Sure.

A

Operator: Our next question comes from the line of Patrick Davitt of Autonomous Research.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Hey, good morning, guys. It looks like the private marks and private equity are suddenly starting to look a lot better relative to last year absent 4Q of course ramping up from 2% in the first quarter to 4% in the second quarter. Could you maybe dig in a little bit more about what kind of positions or any one position that might be driving that? And should we take this as a signal that the Fund VIII portfolio is finally getting to a seasoning level where we can expect better positive private marks there coming through more consistently?

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

A

Yeah. Yeah. Look, that's a good question. Obviously, last year's marks were affected by the Q4 volatility which had just a typically outsized movement for one quarter. I mean it's hard to sort of point to two quarters and call it a trend. But what I will tell you as Fund VIII is seasoning and as more and more of those investments are coming closer to monetization, the marks are moving towards, I'd say, more of a monetization level for a number of these investments. So there's no one name that sort of sprung up. It really is across a wide variety of the portfolio. And consistent with what Martin said earlier around realizations, as we move into later parts of this year just based on what we have in the pipeline for things in registration, positions, moving to sort of secondary trades and ultimately sale processes that we have going on right now, you're going to start to see more monetizations in the back half of this year. And then continuing on even more so in 2020. So I think it's as we move into the more seasoned or fully seasoned phase of Fund VIII, that's what you're starting to see.

Operator: Our next question comes from the line of Bill Katz of Citi.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you very much for taking the question. Maybe two-parter as well, so just sticking on that last point. I was wondering, is there any reason to believe that Fund VIII wouldn't have a historical MOIC associated with it? And then secondly, [indiscernible] (00:40:27) maybe for Martin, just you think about the FRE margin, I wonder if you could sort of right-size as to what the second quarter might have been absent some lumpy transaction activity and maybe your go-forward outlook? Thank you.

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

A

Sure. I mean look, it's hard to make absolute predictions but based on what we see in the portfolio today and the quality of the businesses in Fund VIII, we feel very comfortable with the consistent MOIC on that front.

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

A

Right. And Bill on the on the FRE, so last year we did \$1.87 FRE at 54% margin. This year if you run rate the first half, we're running at \$2.20 at a 57% margin. So, it's clearly something we're happy with, but also consistent with our long-term growth which is [ph] low teens (00:41:26) to 20% FRE growth. As we look forward, we would expect to see that growth continue based on what we have in the fundraising pipeline as well as VIVAT. And as far as the margins concerned we're constantly evaluating investments in the platform, investing for future growth against revenue as it emerges. So, I would say at 57% for the first half and a bit higher than that for the second quarter.

It's in the range, but at the high end of the range of what I would expect to see in the next couple of years. But over time, we see potential for that to continue to grow.

Operator: Our next question comes from line of Ken Worthington of JPMorgan.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. I've received an elevated number of questions on Apollo and the risk around Jeff Epstein and was hoping you could comment. There have been media reports linking Apollo executives and Epstein. There have also been reports that certain LPs including a story this morning highlighting Calpers that they have concerns that executive ties are or could be distraction for management. So, a couple of questions around this.

I guess first, is there any link between Apollo and Epstein? Two, how is Apollo managing the fallout from potential executive ties to Epstein? And is it possible at all to ring-fence exposure here? I think the story on Bloomberg this morning suggested Calpers, actually they're saying Calpers is taking the matter seriously. So, that's the catalyst for the question. Thank you.

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

A

Hey. This is Leon Black. So I thought it's appropriate I answer this question or this group of questions, which I think are very valid and good questions. The first thing I would say is we're entering our 30th year of business right now, and there's nothing that's more important to us than our relationship with our investors. So we take this all extremely seriously also. There has been a virtual tsunami in the press on the subject. It seems to be the gift that never stops giving. For the press, it's salacious, it involves elements of politics, of me-too, of rich and powerful people. And my guess is it will continue for a while.

Our view right now is that it is not affecting our relationship with our investors. I think we have a pretty open dialogue with them. And our view has been that if they do have any specific concerns, as our relationships have been in the last 30 years that we want to be able to talk to them about it and have them feel they have total access to us. As to the substance of the questions you've just related, I'd like to just share with you in response to all this press coverage, I sent out an email to our 1,250 employees last Friday, which covers a number of the things you've been asking about. And I'm happy to share that with you now.

So, I'm actually just going to read the email. So, "given the intense press coverage of Jeffrey Epstein following his recent arrest including stories concerning Mr. Epstein's role as the Director of my Family Foundation, I believe it is important for me to communicate with our valued partners and employees about my relation with Mr. Epstein as follows. Number one, Apollo has never done any business with Mr. Epstein at any point in time. Number two, from time-to-time, Mr. Epstein has provided professional services to my family partnership and related family entities, involving tax, estate planning, and philanthropic advice. Three, on a few occasions, I donated money to certain charitable organizations with which Mr. Epstein was affiliated and he made contributions to certain charitable organizations that are meaningful to me. Four, the Black Family Foundation was created in 1997 with seven trustees, one of whom was Mr. Epstein. Mr. Epstein resigned as a Director of the Foundation in 2007 and state tax filings in Delaware correctly removed Mr. Epstein's name as a Director in the years following 2007. Mr. Epstein's name however was mistakenly maintained on Section 990 tax filings for several years after his resignation. Five, most important, I was completely unaware of and I'm deeply troubled by the conduct that is now the subject of the federal criminal charges brought against him. And then I finally ended it that as we embarked on the 30th year of building Apollo into world-class business, operating with integrity in the highest business

standards, we should all take great pride in the work we do for our investors. I look forward to the future and I'm sorry if this recent media attention has been a distraction or caused you any concern".

That's the memo that was sent out last Friday to our 1,200 employees, which I now share with all of you. And again, want to reiterate that we don't believe this is having an impact on our business. And we look forward to discussing openly with any of our investors, any concerns they might have on this subject.

Operator: Our next question comes from the line of Michael Cyprys of Morgan Stanley.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Good morning. Thanks for taking the question. Just wanted to follow up on some of the index inclusion commentary. I think earlier you mentioned expectations for Apollo shares to be included in the CRSP, MSCI and some of the total market indices. I was just curious around your expectations on potential for inclusion in the Russell, I think your existing common units have some voting rights. So I was hoping you can remind us on the extent of voting rights that are in the units today, how they might change if at all in a C-Corp and if you think that's sufficient to qualify for the Russell?

Martin Kelly

Chief Financial Officer, Co-Chief Operating Officer, Apollo Global Management LLC

A

Yeah. Mike, the short answer is we're not sure. There are voting rights that are attached to the Class A shares today that would need to be operationalized more and we need to engage with Russell as to whether that's sufficient for inclusion. So, that's something we plan to do. They rebalance once a year. So, it's likely not something we'll know until we get closer to that next rebalancing date Q2 of next year.

Operator: Our next question comes from the line of Gerry O'Hara of Jefferies.

Gerald Edward O'Hara

Analyst, Jefferies LLC

Q

Great. Thanks. In your prepared remarks you noted that you remain confident in the ability to deploy capital at similar levels as in kind of years past. Perhaps you can add some color there as to what you're seeing out there thematically or perhaps even geographically that gives you this confidence. And I guess I'm kind of thinking specifically around private equity and perhaps real assets. Thank you.

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

A

Sure. Sure. So, as noted in the materials Q2 was a reasonably strong deployment quarter on the back of Q1 which was also a pretty healthy quarter. Based on what we have signed up that will continue into Q3. As we look at the pipeline, thematically I would say it continues where we've been focusing quite frankly for the last 18 to 24 months. Public to private, it continued to be an interesting place for us from a valuation perspective. Notwithstanding some of the indices there's still enormous value in many, many public companies. As noted, three of the last four transactions we've executed in Fund IX have been public to private. So, probably from a broad esteemed standpoint, that's been the focus.

Geographically I would say, there's not any one overriding factor other than North America continues to look strongest to us from just a health of the underlying economy standpoint. And then I'd say just beyond private

equity, a number of our other strategies continues to deploy at a very comfortable pace. So on the real assets side, our North American and Asian real estate funds as well as our EPF fund continue to find very attractive investments to make on a Hybrid Value as Martin mentioned in his prepared comments. That fund continues to deploy incredibly well. That's a very attractive product for the marketplace right now. And they're finding many, many opportunities I think and probably some of the best risk return we see across the entire spectrum. So overall, we feel – for those reasons feel pretty good that we'll be able to keep marching along.

Operator: And our final question comes from the line of Chris Harris of Wells Fargo.

Christopher Harris

Analyst, Wells Fargo Securities LLC

Q

Thanks. Can you help me understand how Athora's business model is going to work in light of all the negative yielding debt in Europe?

Leon David Black

Founder, Chairman & Chief Executive Officer, Apollo Global Management LLC

A

Well, good question. I think to start with on top of the negative yielding environment, the yield which one needs to create for the liability vis-à-vis the U.S. is a much lower level. So as you point out, if you were a traditional insurance company and your sandbox to invest is sovereign debt and investment grade corporates, that's a pretty challenging environment.

What we have been able to do in spending the years of really understanding Solvency II and what we can do in terms of, yes, you have low or negative yielding sovereign debt, but if you appropriately match that with middle market loans in Europe, if you – other types of wholesale or bespoke securitization or a variety of other quasi investment grade yielding assets, your yield target if it was in the U.S. for Athene, it may be in the mid to high-4s, that would be dramatically lower in Europe somewhere in the context of high-2s, low-3s.

So I think that we're confident that our portfolio management strategic asset allocation and our ability to bring multi-credit solutions, middle market loans, real estate debt, as I mentioned to achieve those high-2s, low-3s targets notwithstanding the negative or low-yielding sovereigns, the math does indeed work. And again, I think that's something when we sit down in November 7th, we can spend a bit more time on the pathway to get there.

Operator: And 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-Corporate Communications, Apollo Global Management LLC

Great. Thanks very much operator and thanks everyone for joining us on the call this morning. We look forward to speaking with you again shortly.

Operator: Thank you ladies and gentlemen for joining Apollo Global Management's second quarter 2019 earnings conference call. You may disconnect your lines at this time and have a great day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.