

Press Release

Apollo Charged With Disclosure and Supervisory Failures

FOR IMMEDIATE RELEASE

2016-165

Washington D.C., Aug. 23, 2016 — The Securities and Exchange Commission today announced that four private equity fund advisers affiliated with Apollo Global Management have agreed to a \$52.7 million settlement for misleading fund investors about fees and a loan agreement and failing to supervise a senior partner who charged personal expenses to the funds.

An SEC investigation found that the Apollo advisers failed to adequately disclose the benefits they received to the detriment of fund investors by accelerating the payment of future monitoring fees owed by the funds' portfolio companies upon the sale or IPO of those companies. The lump sum payments received by the Apollo advisers essentially reduced the portfolio companies' value prior to their sale or IPO and reduced amounts available for distribution to fund investors.

The SEC also found that one of the Apollo advisers failed to disclose certain information about interest payments made on a loan between the adviser's affiliated general partner and five funds. The purpose of the loan was to defer taxes on carried interest due the general partner. The loan agreement obligated the general partner to pay interest to the funds during the course of the loan, and the funds' financial statements disclosed that interest was accruing as an asset of the funds. But that interest was instead ultimately allocated solely to the general partner, which made the disclosures in the financial statements misleading.

"A common theme in our recent enforcement actions against private equity firms is their failure to properly disclose fees and conflicts of interest to fund investors," said Andrew J. Ceresney, Director of the SEC Enforcement Division. "Investors in Apollo funds were not adequately informed about accelerated monitoring fees and separately allocated loan interest, and therefore were unable to gauge their impact on their investments."

According to the SEC's order instituting the settled administrative proceeding, Apollo's supervisory failures pertain to a then-senior partner at the firm who was twice caught improperly charging personal items and services to Apollo-advised funds and their portfolio companies. Other than verbally reprimanding the partner and requiring repayment of improperly submitted expenses, Apollo took no further remedial or disciplinary steps on either occasion. A firm-wide expense review eventually revealed even more personal expenses the partner improperly charged to fund clients, and this led to the partner's separation from the firm.

"Apollo failed to take appropriate action to protect its clients upon first learning that a partner was improperly expensing personal items and services to the funds, and its failure resulted in repeated misconduct," said Anthony S. Kelly, Co-Chief of the SEC Enforcement Division's Asset Management Unit.

Apollo consented to the entry of the SEC's order finding that it violated Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8. The order also finds that Apollo failed reasonably to supervise the then-partner pursuant to Section 203(e)(6) of the Advisers Act. Apollo agreed to cease and

desist from further violations without admitting or denying the findings, and must pay \$37.527 million in disgorgement, \$2,727,552 in interest, and a \$12.5 million penalty. Apollo agreed to distribute the disgorgement and interest amounts to affected fund investors.

The SEC's investigation, which is continuing, is being conducted by Donna Norman of the Asset Management Unit and supervised by Mr. Kelly. A related examination of Apollo was conducted by Majid Mahmood, Michael Devaney, Mandy Poon, Igor Rozenblit, and William Delmage.

###

Related Materials

- [SEC order](#)