

A P O L L O

A L T E R N A T I V E A S S E T S

**AP ALTERNATIVE ASSETS, L.P.**  
**Financial Report**

*As of and for the years ended  
December 31, 2012 and 2011*

# Table of Contents

	PAGE
Certain Information.....	3
About AP Alternative Assets.....	5
Management’s Discussion and Analysis of Financial Condition and Results of Operations:	
Introduction.....	9
Forward-Looking Statements.....	11
Business Description .....	12
Overview and Outlook .....	13
Portfolio and Investment Activity .....	14
Results of Operations .....	20
Liquidity and Capital Resources .....	23
Risk Factors.....	30
Critical Accounting Policies .....	37
Recent Accounting and Reporting Developments .....	39
Financial Statements of AP Alternative Assets, L.P. ....	F-1
Financial Statements of AAA Investments, L.P. ....	F-22

# Certain Information

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## Statement of Responsibility

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The portions of this financial report that relate to AP Alternative Assets, L.P. (“AP Alternative Assets” or “AAA”), including the financial statements and other financial information of AP Alternative Assets contained herein, are the responsibility of and have been approved by AAA Guernsey Limited as the Managing General Partner of AP Alternative Assets. AAA Guernsey Limited is responsible for preparing such portions of this financial report to give a true and fair view of the state of affairs of AP Alternative Assets at the end of the fiscal period and of the profit or loss for such period as well as for preparing such financial statements in accordance with applicable Guernsey law, applicable Dutch law, and accounting principles generally accepted in the United States of America (“U.S. GAAP”). In accordance with their responsibilities, AAA Guernsey Limited has prepared the financial statements of AP Alternative Assets contained herein to give a true and fair view of the state of affairs of AP Alternative Assets at the end of the fiscal period and has prepared such financial statements in accordance with U.S. GAAP, and the board of directors of AAA Guernsey Limited has approved the financial statements.

The portions of this financial report that relate to AAA Investments, L.P. (“Investment Partnership”), including the financial statements and other financial information of AAA Investments, L.P., contained herein, are the responsibility of and have been approved by AAA MIP Limited, as the General Partner of AAA Associates, L.P., which serves as the general partner of AAA Investments, L.P. AAA MIP Limited is responsible for preparing such portions of this financial report to give a true and fair view of the state of affairs of AAA Investments, L.P., at the end of the fiscal period and of the profit or loss for such period as well as for preparing such financial statements in accordance with applicable Guernsey law and U.S. GAAP.

In preparing their financial reports, both AAA Guernsey Limited and AAA MIP Limited are required to (i) select suitable accounting policies and apply them consistently; (ii) make judgments and estimates that are reasonable and prudent; (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts; and (iv) prepare the financial statements on a going-concern basis, unless it is inappropriate to presume that AP Alternative Assets and the Investment Partnership will continue in business. The directors are responsible for keeping proper records which disclose with reasonable accuracy at any time the financial position of the Partnerships and to enable them to ensure that the financial statements comply with applicable Guernsey law and U.S. GAAP. They are also responsible for safeguarding the assets of the Partnerships and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Certain Information

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## Directors and Advisors

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The board of directors of AAA Guernsey Limited currently consists of Leon Black, Marc Rowan, Marc Spilker, Beno Suchodolski, Louise Blouin, Paul Guilbert and Rupert Dorey. The address of each of these individuals is c/o AAA Guernsey Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands, GY1 3QL.

The board of directors of AAA MIP Limited currently consists of Leon Black, Marc Rowan and Marc Spilker. The address of each of these individuals is c/o AAA MIP Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands, GY1 3QL.

On March 15, 2012, Henry Silverman resigned from the board of directors of AAA Guernsey Limited and AAA MIP Limited. As a result of Mr. Silverman's resignation, Marc Spilker, President of Apollo Global Management, LLC, joined the board of directors of AAA Guernsey Limited and AAA MIP Limited.

Northern Trust International Fund Administration Services (Guernsey) Limited has been retained to serve as the Guernsey administrator for each of AP Alternative Assets and AAA Investments, L.P. The address of Northern Trust International Fund Administration Services (Guernsey) Limited is Trafalgar Court, Les Banques, St. Peter Port, Guernsey, Channel Islands, GY1 3QL.

Deloitte LLP has been retained to serve as the independent auditor of each of AP Alternative Assets and the Investment Partnership. The address of Deloitte LLP in Guernsey is Regency Court, Gategny Esplanade, St. Peter Port, Guernsey, Channel Islands, GY1 3HW.

Apollo Alternative Assets, L.P. provides investment management, operational and financial services to AP Alternative Assets and the Investment Partnership under a services agreement. The address of Apollo Alternative Assets, L.P. is Walker House, P.O. Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands.

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The website address for AP Alternative Assets is [www.apolloalternativeassets.com](http://www.apolloalternativeassets.com).

# About AP Alternative Assets

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## Overview

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We commenced operations on June 15, 2006, and are a closed-end limited partnership established by Apollo under the laws of Guernsey. AP Alternative Assets is managed by Apollo Alternative Assets, L.P. (“Apollo Alternative Assets”) and is currently invested primarily in opportunistic investments sponsored by Apollo Global Management, LLC and its subsidiaries (collectively “Apollo”). Apollo Alternative Assets implements our investment policies and procedures and carries out the day-to-day management and operations of our business pursuant to a services agreement. Apollo is a leading global alternative investment manager with over 22 years of experience investing across the capital structure of leveraged companies.

We invest substantially all of our capital in Apollo-sponsored entities, funds and private equity transactions. As of December 31, 2012, our portfolio consisted primarily of an opportunistic investment in Apollo Life Re Ltd. which is an Apollo-sponsored vehicle that owns the majority of the equity of Athene Holding Ltd. (“Athene”), the parent of Athene Life Re Ltd., a Bermuda-based reinsurance company focused on the life reinsurance sector, Athene Annuity & Life Assurance Company (formerly Liberty Life Insurance Company), a Delaware-domiciled stock life insurance company focused on retail sales and reinsurance in the retirement services market, Investor Insurance Corporation, a Delaware-domiciled stock life insurance company focused on the retirement services market and Athene Life Insurance Company, a Indiana-domiciled stock life insurance company focused on the institutional guaranteed investment contract (“GIC”) backed note and funding agreement markets.

The net asset value of AP Alternative Assets as of December 31, 2012, was approximately \$1,662.9 million.

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## Competitive Strengths

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**We believe our competitive strengths include:**

- **the strong long-term track record of Apollo in targeted investment classes**
- **our diversified exposure to the investment strategies managed by Apollo**
- **the active involvement of Apollo’s experienced and cohesive investment team in our investments**
- **our ability to benefit from Apollo’s integrated and collaborative investment platform and flexible approach towards investing across market cycles**

# About AP Alternative Assets

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## About Apollo

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Founded in 1990, Apollo is a leading global alternative investment manager with a track record of successful private equity, credit and real estate investing. Apollo is led by its managing partners Leon Black, Joshua Harris and Marc Rowan. At December 31, 2012, Apollo had a team of 634 employees, including 253 investment professionals. Apollo has offices in New York, Los Angeles, Houston, London, Singapore, Frankfurt, Luxembourg, Hong Kong and Mumbai.

The private equity business is a key component of Apollo's investment activities. We believe Apollo has demonstrated the ability to adapt quickly to changing market environments and capitalize on market dislocations through its traditional and distressed investment approach. In prior periods of strained financial liquidity and economic recession, Apollo has made attractive private equity investments by buying the distressed debt of quality businesses, converting that debt to equity, creating value through active management and ultimately monetizing the investment. Apollo's combination of traditional buyout investing with a "distressed option" has been successful throughout prior economic cycles and has allowed its funds to achieve attractive long-term rates of return in different economic and market environments.

Apollo's investment approach is value-oriented and often contrarian in nature. The firm focuses on nine core industries through which it has considerable knowledge while emphasizing downside protection and the preservation of capital. Apollo has successfully applied this investment philosophy in flexible and creative ways over its 22-year history, allowing it to find attractive investment opportunities, deploy capital across the balance sheet of industry leading, or "franchise," businesses and create value throughout economic cycles.

Apollo's credit operations commenced in 1990 as a complement to its private equity investment activity. Apollo currently manages a number of credit funds, including mezzanine funds, senior credit funds, distressed and hedge funds and non-performing loan funds. We may invest in, or alongside of, these credit vehicles which take advantage of the same disciplined, value-oriented investment philosophy employed with respect to Apollo's private equity investment activities.

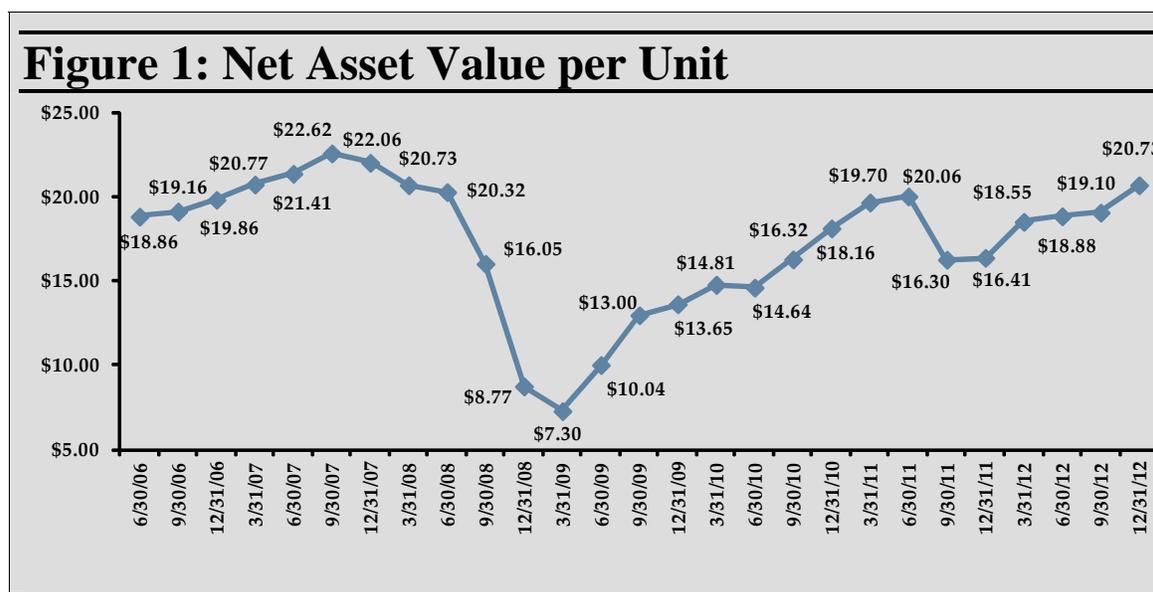
Apollo's investment professionals frequently collaborate and share information across disciplines including market insight, management, banking and consultant contacts as well as potential investment opportunities, which Apollo believes enables it to more successfully invest across a company's capital structure.

AP Alternative Assets has one investment comprised of the entire limited partnership interest in AAA Investments, L.P.

# About AP Alternative Assets

## Overview of Investment Results

As of December 31, 2012, the net asset value of AP Alternative Assets was approximately \$1,662.9 million, or \$20.73 per common unit. This reflects a net increase in net assets after contributions, distributions and unit purchases of approximately \$183.3 million, or \$4.32 per common unit during the year ended December 31, 2012.



## Overview of Investment Portfolio

The following portfolio allocation includes the fair value of the Investment Partnership's investment portfolio as of December 31, 2012, and excludes temporary investments.

**Figure 2: Portfolio Allocation**

(Figures in thousands)

Opportunistic Investment - Apollo Life Re Ltd.	\$ 1,578,954
Other <sup>(1)</sup>	25,050
<b>Total</b>	<b>\$ 1,604,004</b>

(1) The Investment Partnership held two private equity co-investments in Apollo Investment Fund VI portfolio companies at December 31, 2012 that are subject to regulatory clearance and have not been transferred to Athene as a result of the transaction as discussed in the portfolio and investment activity section.

# About AP Alternative Assets

## Figure 3: Investments as of December 31, 2012

As of December 31, 2012, majority of our portfolio consisted of an opportunistic investment in Apollo Life Re Ltd.

<b>Opportunistic Investment</b>		
	<b>Financial &amp; Business Services</b>	Apollo Life Re Ltd. is an Apollo-sponsored vehicle that owns the majority of the equity of Athene Holding Ltd., the parent of Athene Life Re Ltd., a Bermuda-based reinsurance company focused on the life reinsurance sector, Athene Annuity & Life Assurance Company (formerly Liberty Life Insurance Company), a Delaware-domiciled stock life insurance company focused on retail sales and reinsurance in the retirement services market, Investor Insurance Corporation, a Delaware-domiciled stock life insurance company focused on the retirement services market and Athene Life Insurance Company, a Indiana-domiciled stock life insurance company focused on the institutional guaranteed investment contract backed note and funding agreement markets.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Introduction

The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the "Forward-Looking Statements" as a result of these risks and uncertainties, including those set forth under "Forward-Looking Statements" and "Risk Factors," below. For a more detailed description of our business and related risks, see our Prospectus which is available on the website ([www.apolloalternativeassets.com](http://www.apolloalternativeassets.com)). The following discussion should also be read in conjunction with our financial statements and related notes and the financial statements and related notes to the financial statements of the Investment Partnership, which are included elsewhere in this report.

We have prepared this report using a number of conventions, which you should consider when reading the information contained herein. Unless the context suggests otherwise, references to:

- "we", "us", "our" and "our partnership" are to AP Alternative Assets, L.P. ("AAA", "AP Alternative Assets" or the "Partnership"), a Guernsey limited partnership;
- our "Managing General Partner" are to AAA Guernsey Limited, a Guernsey limited company, which serves as our general partner;
- the "Investment Partnership" are to AAA Investments, L.P. ("AAA Investments"), a Guernsey limited partnership and its subsidiaries through which our investments are made;
- the "Investment Partnership's General Partner" are to AAA Associates, L.P., a Guernsey limited partnership, which serves as the general partner of the Investment Partnership;
- the "Managing Investment Partner" are to AAA MIP Limited, a Guernsey limited company, which serves as the general partner of the Investment Partnership's General Partner; and
- "Apollo" are, as the context may require, to Apollo Global Management, LLC and its subsidiaries including Apollo Management VI, L.P. (manager to Apollo Investment Fund VI, L.P., together with its parallel investment vehicles, herein referred to as "Apollo Investment Fund VI"), Apollo Management VII, L.P. (manager to Apollo Investment Fund VII, L.P., together with its parallel investment vehicles, herein referred to as "Apollo Investment Fund VII"), Apollo Europe Management, L.P., Apollo SVF Management, L.P., Apollo Asia Management, L.P., Apollo EPF Management, L.P., AGRE Europe Management, LLC, Apollo APC Management, L.P. and Apollo Alternative Assets, L.P., each of which is a limited partnership formed to act as manager of a particular Apollo fund or Apollo sponsored opportunistic investment (and its co-investment entities), Athene Asset Management, LLC (investment manager formed to provide asset management services to Athene Holding Ltd and its subsidiaries, affiliates, and other third parties) and any other entity formed to act as manager of an Apollo fund, and to any other persons that, directly or indirectly through one or more intermediaries, control, are controlled by or are under common control with Apollo Alternative Assets, L.P. ("Apollo Alternative Assets"), the investment manager to AAA and

# Management's Discussion and Analysis of Financial Condition and Results of Operations

to the Investment Partnership, which provides certain investment management, operational and financial services to us and others involved in our investments.

Additionally, unless the context suggests otherwise, we use the term "our investments" to refer both to AP Alternative Assets' limited partner interest in the Investment Partnership, which is the only investment that we record in our statement of assets and liabilities, and to investments that are made through the Investment Partnership. Although the investments that the Investment Partnership makes with our capital do not appear as investments in the Partnership's financial statements, AAA is the primary beneficiary of such investments and bears substantially all the risk of loss. We also use the term "our investments" to refer to portfolio investments of the investment funds in which the Investment Partnership invests. While there may be other investors in those portfolio company investments, the Investment Partnership, and therefore the Partnership, is generally entitled to share ratably in the returns generated by such investments and suffer substantially all the risk of loss with respect to such investments.

Our financial statements and the financial statements of the Investment Partnership were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars. On May 31, 2007, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten, "AFM") sent us a letter in which it approved the preparation of our financial statements in accordance with U.S. GAAP instead of the Dutch financial reporting rules or International Financial Reporting Standards ("IFRS"). Pursuant to article 5:25v of the Dutch Financial Supervision Act (Wet op het Financieel Toezicht, "FSA"), currently no further dispensation is necessary for the preparation of our financial statements in accordance with U.S. GAAP.

We are subject to the ongoing supervision of the Guernsey Financial Services Commission. The Partnership is also registered with the AFM as an investment institution domiciled in a designated state as referred to in Article 2:66(1) of the FSA, on the basis of which the Partnership is exempted from the requirement to obtain a license under the FSA, but is subject to certain ongoing obligations, including reporting obligations.

AAA is regulated by the Authorised Closed-ended Investment Scheme Rules 2008 introduced by the Guernsey Financial Services Commission ("GFSC") with effect from December 15, 2008 under The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the "New Rules"). Effective October 29, 2008, AAA became regulated under the New Rules and is deemed to be an authorized closed-ended investment scheme under the New Rules.

We utilize an annual reporting schedule comprised of four three-month quarters, with an annual accounting period ending on December 31. Our quarterly periods end on March 31, June 30, September 30 and December 31. The financial results presented herein include activity for the years ended December 31, 2012 and 2011.

This financial report includes information required in accordance with Article 5:25d in conjunction with 5:25v of the FSA (and the regulations promulgated thereunder) and contains a

# Management's Discussion and Analysis of Financial Condition and Results of Operations

discussion on the material events and transactions which relate to the period from January 1, 2012 through February 7, 2013. Other than as discussed in this financial report, there have been no other material events or transactions during this period which have impacted the financial position of AP Alternative Assets or its group companies.

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## Forward-Looking Statements

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This report contains certain forward-looking statements. Forward-looking statements speak only as of the date of the document in which they are made and relate to expectations, beliefs, projections (including anticipated economic performance and financial condition), future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts and are subject to risks and uncertainties including, but not limited to, statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

In some cases, you can identify forward-looking statements by terms such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “should”, “will”, and “would”, or the negative of those terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Factors and events that could cause our business, financial condition, liquidity and results of operations to vary materially include, among other things, general economic conditions, securities market conditions, private equity market conditions, the level and volatility of interest rates and equity prices, competitive conditions, liquidity of global markets, international and regional political conditions, regulatory

# Management's Discussion and Analysis of Financial Condition and Results of Operations

and legislative developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events, outcome of legal proceedings, changes in currency values, inflation, credit ratings and the size, volume and timing of transactions, as well as other risks described elsewhere in this report and our prospectus.

The foregoing is not a comprehensive list of the risks and uncertainties to which we are subject. Except as required by applicable law, we undertake no obligation to update or revise any forward-looking statements to reflect any change in our expectations, or any changes in events, conditions or circumstances on which the forward-looking statement is based. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors.

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## Business Description

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### AP Alternative Assets

The Partnership is a Guernsey limited partnership (managed by Apollo Alternative Assets) whose business consists of one investment comprised of the limited partnership interests in AAA Investments, L.P.

### AAA Investments

The Investment Partnership is a Guernsey limited partnership whose business purpose consists of making investments in and co-investments with, Apollo-sponsored private equity funds, credit-focused funds or opportunistic investments. The Investment Partnership's General Partner is responsible for managing the business and affairs of the Investment Partnership, and in its sole discretion, may allocate assets and liabilities of the Investment Partnership to the relevant class of interests in accordance with the terms and conditions of the Investment Partnership's limited partnership agreement. The Investment Partnership's General Partner also determines the amount of all distributions, profits and losses relating to each class, as well as corresponding expense allocations to each class.

We, the Managing General Partner, the Investment Partnership, its General Partner and the Managing Investment Partner, have entered into a services agreement with Apollo Alternative Assets pursuant to which Apollo Alternative Assets has agreed to provide each of us with certain investment, financial advisory, operational and other services. Under the services agreement, Apollo Alternative Assets is also responsible for each of our day-to-day operations and is subject at all times to the supervision of our respective governing bodies, including the board of directors of the Managing General Partner and the board of directors of the Managing Investment Partner. The Investment Partnership's limited partnership agreement provides that investments made by

# Management's Discussion and Analysis of Financial Condition and Results of Operations

the Investment Partnership must comply with the investment policies and procedures that are established for the Partnership.

We do not consolidate the results of operations, assets, or liabilities of the Investment Partnership in our financial statements. Therefore, operating expenses of the Investment Partnership are recognized only to the extent that they affect the fair value of the limited partner interests in the Investment Partnership. Our operating expenses are limited to the expenses that we directly incur in connection with our direct operations. These expenses consist primarily of our share of the total management fee that is payable under our services agreement, expenses of Apollo Alternative Assets and its affiliates that are attributable to our operations and reimbursable under our services agreement, the directors' fees that our Managing General Partner pays its independent directors, the fees and expenses of our Guernsey administrator, professional fees, interest expense on any borrowings, organization costs and other general and administrative costs.

Operating expenses of the Investment Partnership consist primarily of its share of the management fees that are payable under our services agreement, the expenses of certain Apollo entities that are directly attributed to its operations and reimbursable under our services agreement, certain transaction and other costs incurred when making investments and other professional fees, interest expense on any borrowings, organization costs, broken deal expenses, allocated overhead costs and administrative costs.

In general, the purchases and sales made by the Investment Partnership of non-cash and non-temporary investments are with related parties and direct expenses for management fees, broken deal costs, allocated overhead costs and incentive fees are paid to related parties.

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## Overview and Outlook

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As of December 31, 2012 and 2011, the net asset value of AP Alternative Assets was \$1,662.9 million, or \$20.73 per common unit, and \$1,479.5 million, or \$16.41 per common unit, respectively. For the years ended December 31, 2012 and 2011, the net increase (decrease) in net assets from operations of AP Alternative Assets was \$285.6 million, or \$3.43 per common unit, and \$(126.5) million, or \$(1.40) per common unit, respectively.

On February 10, 2012, AAA commenced an offer (the "February Tender Offer") to purchase common units or restricted depository units (collectively "Units"), at prices ranging from \$9.20 to \$10.70 per Unit. Under the terms of the February Tender Offer, which was oversubscribed, AAA purchased 5,000,000 Units at a price per unit of \$10.00. The amount tendered was \$50.0 million, (\$50.3 million inclusive of expenses), and the Units acquired in the February Tender Offer were cancelled.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

On April 20, 2012, AAA commenced an offer (the "April Tender Offer") to purchase common Units at prices ranging from \$9.00 to \$10.50 per Unit. Under the terms of the April Tender Offer, which was oversubscribed, AAA purchased 4,967,462 Units at a price per unit of \$10.00. The amount tendered was \$49.7 million, (\$49.8 million inclusive of expenses), and the Units acquired in the April Tender Offer were cancelled.

On December 10, 2012, AAA announced that it will extend a cash tender offer for up to \$100.0 million which was originally launched on November 12, 2012 (the "November Tender Offer"). AAA will repurchase up to 6,666,666 of its outstanding units at a price between \$15.00 and \$16.00 per unit. In order to assist unitholders in making an informed decision as to whether or not to tender their units, AAA has provided unitholders with additional information relating to Athene and subsequently on February 6, 2013, the offer period relating to the Tender Offer was extended until February 27, 2013.

Through December 31, 2012, the Investment Partnership did not hedge its investments denominated in foreign currency, which resulted in net unrealized losses from the foreign currency movements on such investments over the course of the year. Such foreign currency fluctuations are recorded as part of the net change in net unrealized depreciation on such investments in the Investment Partnership's statement of operations. Future changes in exchange rates, if such exposures continue to remain unhedged, may lead to significant fluctuations, both positive and negative, in the value of our foreign denominated investments.

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## Portfolio and Investment Activity

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Capital is currently deployed in investment opportunities that we believe meet or exceed our risk-reward standards. Consistent with the amended investment criteria outlined for the Partnership, as of December 31, 2012, the Investment Partnership had a concentration invested in opportunistic investments as described below.

On October 31, 2012 the Investment Partnership closed on an agreement to contribute substantially all of its investments to Athene Holding Ltd. ("Athene") in exchange for common shares of Athene, cash and a short term promissory note (the "Transaction"). The Investment Partnership received approximately 46.8 million non-voting common shares of Athene, cash of \$82.9 million and a promissory note with a principal amount of \$113.3 million in exchange of investments with a fair value of approximately \$1,114.3 million. The promissory note will bear interest at a rate of 0.30% per annum, is payable upon demand by the Investment Partnership and Athene may prepay at its option at any time, without penalty. At December 31, 2012, there are an additional 1.5 million shares that will be issued by Athene in exchange for Investment Partnership investments that are pending the receipt of required regulatory consents. The impact of the Transaction resulted in a realized gain of approximately \$178.3 million (or \$2.22 per unit) as of December 31, 2012. In addition, the impact of the transaction resulted in a dilution of approximately \$63.6 million in the Investment's Partnership's interest in Athene and an increase

# Management's Discussion and Analysis of Financial Condition and Results of Operations

of approximately \$22.1 million of additional allocation to the General Partner at December 31, 2012.

Simultaneously with the approval of the Transaction, the Board approved the removal of the diversification requirements within the Investment Partnership's Investment Policies and Procedures (having received the requisite approval of the independent directors) in order for the Investment Partnership to have Athene as its only investment.

After the Transaction, Athene is the Investment Partnership's only material investment and the Investment Partnership remains the largest shareholder of Athene with an approximate 77% ownership stake (based on capital invested to date). There will be no management fees payable with respect to the newly acquired Athene shares by the Investment Partnership in the Transaction, which are those shares in excess of the Athene shares the Investment Partnership owned prior to the Transaction of approximately 3.8 million at \$11.16 per share pursuant to a pre-existing capital commitment (the "Excluded Shares"). Likewise, affiliates of the Manager will not be entitled to receive any carried interest in respect of the Excluded Shares. The Investment Partnership will continue to pay to the Manager the same management fee on the Investment Partnership's investment in Athene (other than the Excluded Shares), except that the Manager has agreed that the Investment Partnership's obligation to pay the existing management fee shall terminate on December 31, 2014. The Manager has agreed to receive a formulaic unwind of its management fee up to a cap of \$30.0 million if a realization event commences in 2013, \$25.0 million if a realization event commences in 2014, \$20.0 million if a realization event commences in 2015 and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash or Athene shares valued at the then fair market value (or an equivalent derivative). In addition, any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

On November 1, 2012, the Investment Partnership repaid the remaining balance of \$305.2 million on its outstanding term loan.

In connection with the Transaction which occurred on October 31, 2012, AAA entered into a derivative contract with Apollo Alternative Assets. Apollo Alternative Assets is entitled to receive management fees from AAA in accordance with the services agreement. All the management fees pursuant to the Services Agreement are to be satisfied by AAA's transfer of shares of Athene (or a derivative equivalent thereof) to Apollo Alternative Assets with such shares being valued at the most currently available fair value as determined by AAA. The final settlement of the derivative contract is earlier of a change of control, as defined in the contract, or October 31, 2017.

AAA's investment in Athene may be diluted if Athene calls undrawn commitments from existing investors. AAA's current ownership is approximately 77% at December 31, 2012, excluding the 1.5 million shares related to the investments that are pending receipt of required regulatory

# Management's Discussion and Analysis of Financial Condition and Results of Operations

consents prior to transfer, therefore, this investment could be diluted to approximately 72% if all undrawn commitments are called.

On December 21, 2012 Athene Holding Ltd., a portfolio company of the partnership, announced it had entered into an agreement to acquire Aviva PLC's U.S. annuity and life insurance operations ("Aviva USA"). Aviva USA has approximately \$56.3 billion of statutory admitted assets as of September 30, 2012. Upon closing the transaction, which is subject to regulatory approvals, Athene will be the second largest issuer of fixed indexed annuities in the United States. This purchase is expected to add significant scale to Athene's retail sales and reinsurance operations.

The accompanying schedule shows the Investment Partnership's investments representing more than 5% of its net asset value as of December 31, 2012 and 2011.

<i>(dollars in thousands)</i>	Cost	Fair Value	Fair Value as a Percentage of Net Assets
<b>As of December 31, 2012:</b>			
Opportunistic Investment – Apollo Life Re Ltd.	\$ 1,276,366	\$ 1,578,954	90.9%
Co-investments in Apollo Investment Fund VI portfolio companies	177,153	25,050	1.5%
<b>Total Investments</b>	<b>\$ 1,453,519</b>	<b>\$ 1,604,004</b>	<b>92.4%</b>
<b>As of December 31, 2011:</b>			
Co-investments in Apollo Investment Fund VI and Apollo Investment Fund VII portfolio companies:			
Rexnord Corporation	\$ 37,461	\$ 139,100	9.3%
LeverageSource, L.P.	139,913	102,834	6.8%
Momentive Performance Materials Holdings Inc. <sup>(1)</sup>	80,657	85,300	5.7%
All others <sup>(2)</sup>	768,440	576,511	38.3%
	<b>1,026,471</b>	<b>903,745</b>	<b>60.1%</b>
Apollo Strategic Value Offshore Fund, Ltd. <sup>(3)</sup>	105,889	164,811	11.0%
Apollo Asia Opportunity Offshore Fund, Ltd.	88,166	86,329	5.7%
Other Apollo Credit Funds	244,610	80,630	5.4%
Opportunistic Investment – Apollo Life Re Ltd.	358,241	430,800	28.7%
Other Opportunistic Investment	12,953	12,214	0.8%
<b>Total Investments</b>	<b>\$ 1,836,330</b>	<b>\$ 1,678,529</b>	<b>111.7%</b>

- (1) In addition to the Investment Partnership's private equity co-investment in Momentive Performance Materials Holdings Inc. ("Momentive") noted above, the Investment Partnership has an ownership interest in the debt of Momentive. At December 31, 2011, the Investment Partnership's combined share of these debt and equity investments is greater than 5% of the Investment Partnership's net asset value and is valued at \$85.9 million.
- (2) The Investment Partnership owns equity, as a private equity co-investment and converted from debt positions, and debt, through its investments in Autumnleaf, L.P. and Apollo Fund VI BC, L.P. in CEVA Logistics. The Investment Partnership's combined share of these debt and equity investments is greater than 5% of the Investment Partnership's net asset value and is valued at \$75.2 million at December 31, 2011.
- (3) Apollo Strategic Value Offshore Fund has an ownership interest in a special purpose vehicle, Apollo VIF/SVF Bradco LLC, which owns interests in Bradco Supply Corporation. The Investment Partnership's share of this investment is greater than 5% of the Investment Partnership's net asset value and is valued at \$80.9 million at December 31, 2011.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## **(1) Investment in Opportunistic Investments**

Through December 31, 2012, the Investment Partnership made investments of \$1,276.4 million in Apollo Life Re Ltd., including transaction-related costs. At December 31, 2012, the fair value of Apollo Life Re Ltd. approximated \$1,579.0 million, 90.9% of the net asset value of the Investment Partnership, which resulted in a net life-to-date unrealized appreciation of \$302.6 million. For the year ended December 31, 2012, the investment had a net change in unrealized appreciation of \$230.0 million on its investment in Apollo Life Re Ltd. Athene continues to capitalize on favorable market conditions in the dislocated annuity insurance sector during 2012 and as a result of several strategic acquisitions is positioned to become a global leader in the fixed annuity business.

At December 31, 2011, the fair value of Apollo Life Re Ltd. approximated \$430.8 million, 28.7% of the net asset value of the Investment Partnership, which resulted in a net life-to-date unrealized appreciation of \$72.6 million. For the year ended December 31, 2011, the investment had a net change in unrealized appreciation of \$23.8 million. For the year ended December 31, 2011, Athene continued to generate value as it was able to lock-in relatively wide spreads on newly deployed assets, particularly in the second half of 2011, due to the dislocation in the credit markets over the summer and into the fall. As a reinsurance company, Athene's equity is naturally levered by the future policyholder obligations, which allow Athene to purchase substantially more assets than its original equity base.

## **(2) Private equity co-investments in Apollo Investment Fund VI and Apollo Investment Fund VII portfolio companies**

The Investment Partnership contributed substantially all of its investments in Apollo Investment Fund VI and Apollo Investment Fund VII portfolio companies as a result of the Transaction. The Investment Partnership still owns two portfolio companies in Apollo Investment Fund VI that were subject to regulatory restrictions. At December 31, 2012, the fair value of these two remaining investments approximated \$25.0 million, 1.5% of the net asset value of the Investment Partnership, which resulted in a net life-to-date unrealized depreciation of \$152.1 million. For the year ended December 31, 2012, the Investment Partnership had a net change in unrealized appreciation of \$(29.4) million related to its private equity co-investments. For the year ended December 31, 2012, the Investment Partnership had a net change in unrealized appreciation of \$5.6 million and realized gains of \$106.8 million related to the private equity co-investments contributed to Athene as part of the Transaction.

At December 31, 2011, the fair value of this overall category of investments approximated \$903.7 million, 60.1% of the net asset value of the Investment Partnership, which resulted in net life-to-date unrealized depreciation of \$122.7 million. For the year ended December 31, 2011, the net change in unrealized depreciation was \$(179.7) million. The negative change in net unrealized depreciation for the year is attributable to a decrease in the fair value of certain of our portfolio companies, particularly those in the media, cable and leisure, chemicals and distribution and transportation sectors. The net decrease in fair value of our private equity co-investments is

# Management's Discussion and Analysis of Financial Condition and Results of Operations

primarily the result of volatility in the global capital markets and the realization or impairment of certain investments within the media, cable and leisure sector and debt investment vehicles which resulted in the reversal of previously recorded unrealized depreciation/appreciation. For the year ended December 31, 2011, the Investment Partnership realized gains related to its private equity co-investments, primarily \$21.2 million from the sale of investments within the debt investment vehicles and \$56.7 million from the partial sale of its interest in Charter Communications, Inc., partially offset by a realized loss of \$59.0 million from the impairment of the cost basis of certain debt investment vehicles.

### **(3) Investment in Apollo Credit Funds**

As a result of the Transaction, the Investment Partnership contributed all of its investments in (i) Apollo Strategic Value Offshore Fund, Ltd. ("Apollo Strategic Value Fund"), an Apollo-sponsored fund that primarily invests in the securities of leveraged companies in North America and Europe through distressed investments, value-driven investments and special opportunities, (ii) Apollo Asia Opportunity Offshore Fund, Ltd. ("Apollo Asia Opportunity Fund"), the Apollo-sponsored vehicle focused on value-driven, mezzanine and special opportunity corporate investments in the Asia Pacific region (iii) AP Investment Europe Limited ("Apollo Investment Europe"), an Apollo-sponsored European mezzanine and leveraged debt investment vehicle, (iv) Apollo European Principal Finance Fund, L.P. ("Apollo European Principal Finance Fund"), an Apollo-sponsored vehicle focused on opportunities in the non-performing loans sector in Europe and (v) Apollo Asia Private Credit Fund, L.P. ("Apollo Asia Private Credit Fund"), an Apollo-sponsored vehicle focused on private investing in the Asia Pacific region.

#### **Investment in Apollo Strategic Value Fund:**

The Investment Partnership's investment in the Apollo Strategic Value Fund was in liquidating shares issued by the Apollo Strategic Value Fund. As investments were sold, the Investment Partnership was allocated the proceeds from such disposition less its proportionate share of any current expenses incurred by the Apollo Strategic Value Fund. During the years ended December 31, 2012 and 2011, the Investment Partnership received \$21.0 million and \$10.0 million, respectively, of proceeds from redemptions from the Apollo Strategic Value Fund. For the year ended December 31, 2012, the Investment Partnership realized a gain of \$57.4 million on its investment in the Apollo Strategic Value Fund as a result of the Transaction.

At December 31, 2011, the fair value of investments in this category approximated \$164.8 million, 11.0% of the net asset value of the Investment Partnership, which resulted in a net life-to-date unrealized appreciation of \$58.9 million. For the year ended December 31, 2011, the change in net unrealized appreciation was \$12.4 million, including the impact of a realized gain on redemption of \$2.1 million. On a sector level, the primary contributors to performance for the liquidating shares of the Apollo Strategic Value Fund were holdings in the buildings materials and housing and automotive sectors. This positive performance was partially offset during the year from holdings in the rental and services and transportation sectors. In addition, the Apollo Strategic Value Fund had an ownership interest in a special purpose vehicle, Apollo VIF/SVF Bradco LLC,

# Management's Discussion and Analysis of Financial Condition and Results of Operations

which owns interests in Bradco Supply Corporation. The Investment Partnership's share of this investment is greater than 5% of the Investment Partnership's net asset value and is valued at \$80.9 million at December 31, 2011.

## **Investment in Apollo Asia Opportunity Fund:**

For the year ended December 31, 2012, the Investment Partnership realized a gain of \$0.5 million on its investment in the Apollo Asia Opportunity Fund as a result of the Transaction.

At December 31, 2011, the fair value of the investment in Apollo Asia Opportunity Fund approximated \$86.3 million, 5.7% of the net asset value of the Investment Partnership, which resulted in a net life-to-date unrealized depreciation of \$1.8 million. For the year ended December 31, 2011, the change in net unrealized depreciation was \$(9.3) million, including the impact of realized gains on redemptions of \$1.9 million. For the year ended December 31, 2011, the Apollo Asia Opportunity Fund's negative performance was driven by holdings in the alternative energy, real estate and metals and mining sectors which were partially offset with positive performance by holdings in the financial sector. On a country level, the primary contributors to the negative returns were holdings in China, India and Australia which detracted from value while holdings in Taiwan added value during the year ended December 31, 2011.

## **Investment in Other Apollo Credit Funds:**

For the year ended December 31, 2012, the Investment Partnership realized gains of \$0.1 million and \$13.6 million related to its investments in Apollo Investment Europe and Apollo European Principal Finance Fund, respectively, as a result of the Transaction.

At December 31, 2011, the fair value of the investment in the equity of Apollo Investment Europe was \$20.6 million, which resulted in a net life-to-date unrealized depreciation of \$173.4 million. For the year ended December 31, 2011, the net change in unrealized depreciation of the investment in Apollo Investment Europe was \$8.7 million. During the year ended December 31, 2011, the Investment Partnership received distributions of \$67.4 million from Apollo Investment Europe under its shareholder approved monetization plan. Apollo Investment Europe's performance was reflective of gains in the first half of the year, which were the result of the strong credit markets driven by continued inflows into bond and loan funds, coupled with limited new issuance in the European loan market, which was partially offset by mark-to-market losses in the second half of the year. The net change in unrealized depreciation for the year ended December 31, 2011 was also partially impacted by an unrealized loss of approximately \$0.7 million as a result of foreign currency movements on our investment.

At December 31, 2011, the fair value of investments in Apollo European Principal Finance Fund approximated \$60.0 million, which resulted in a net life-to-date unrealized appreciation of \$9.5 million. For the year ended December 31, 2011, the investment in Apollo European Principal Finance Fund had a net change in net unrealized appreciation of \$3.9 million. For the year ended December 31, 2011, our investment was negatively impacted by approximately \$2.0 million as a result of foreign currency movements.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended December 31, 2012, the Investment Partnership also had a realized gain of \$0.1 million related to its investments in the Apollo Asia Private Credit Fund as a result of the Transaction.

## Results of Operations

### Operating Results of AP Alternative Assets

The following table sets forth AP Alternative Assets' operating results for the years ended December 31, 2012 and 2011:

<i>(in thousands)</i>	For the Year ended December 31, 2012	For the Year ended December 31, 2011
Short-term investment, interest and dividend income	\$ 28,925	\$ 38,136
Investment expense	(38,311)	(34,256)
General and administrative expenses, and interest income	(2,578)	(2,549)
Net investment (loss) income	(11,964)	1,331
Net realized gains from sales/dispositions on investments	46,502	22,948
Net change in unrealized appreciation/depreciation on investments	251,024	(150,774)
Net gain (loss) from investments	297,526	(127,826)
Net increase (decrease) in net assets resulting from operations	<u>\$ 285,562</u>	<u>\$ (126,495)</u>

AAA generates income from its proportional share of the Investment Partnership's investment income, net of investment expenses, and from its share of the unrealized appreciation or depreciation on the Investment Partnership's investments and foreign currency exposure. Under a services agreement, AAA incurs expenses from direct expenses, allocated expenses from the Investment Partnership for professional services, management fees and other general expenses, as well as expenses of our Managing General Partner's board of directors and other administrative costs.

Net Increase (Decrease) in Net Assets Resulting From Operations— The net increase in net assets resulting from operations was approximately \$285.6 million, or \$3.43 per average common unit, for the year ended December 31, 2012, compared to a net decrease of \$(126.5) million, or \$(1.40) per common unit, for the year ended December 31, 2011.

Refer to the Operating Results of the Investment Partnership for further details.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Operating Results of the Investment Partnership

The following table sets forth the Investment Partnership's operating results for the years ended December 31, 2012 and 2011:

<i>(in thousands)</i>	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Investment income – interest, dividends and gains on short-term investments	\$ 28,941	\$ 38,157
Expenses	(38,325)	(34,265)
Net investment (loss) income	(9,384)	3,892
Net realized gains from sales/distributions on investments	46,528	22,960
Net change in unrealized appreciation/depreciation on investments	308,286	(141,348)
Net gain (loss) from investments	354,814	(118,388)
Net increase (decrease) in net assets resulting from operations	\$ 345,430	\$ (114,496)

The Investment Partnership's General Partner is allocated income and expenses related to its initial \$1.0 million capital contribution, which it made to the Investment Partnership in respect of its general partner interest.

The Investment Partnership generates income from interest, dividends, realized gains or losses, and unrealized appreciation or depreciation on investments and foreign currency positions. The Investment Partnership incurs expenses from management fees, interest, broken deals, direct expenses, such as professional fees and administrative expenses, and allocated expenses under the services agreement with Apollo Alternative Assets, L.P.

**Investment Income**—For the years ended December 31, 2012 and 2011, investment income was \$28.9 million and \$38.2 million, respectively, which primarily represented distributions of interest income from the debt investment vehicles, dividend income from portfolio companies and accrued interest income from interest bearing securities of portfolio companies.

**Expenses**—For the years ended December 31, 2012 and 2011, expenses approximated \$38.3 million and \$34.3 million, respectively. These expenses primarily related to management fees, professional fees, costs associated with the credit facility, certain deal costs, including broken deals, and other administrative costs, including interest expense on the credit facility of \$13.4 million and \$8.6 million for the years ended December 31, 2012 and 2011, respectively. The increase in investment expense and general and administrative expenses was primarily due to increased interest expense on outstanding borrowings due to a higher rate of interest charged on the credit facility, as well as increased legal costs related to the Transaction.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Realized Losses From Sales/Dispositions on Investments— For the years ended December 31, 2012 and 2011, net realized gains from sales/dispositions were \$46.5 million and \$23.0 million, respectively. For the year ended December 31, 2012, net realized gains from sales primarily resulted from a gain of approximately \$178.3 million as a result of the contribution related to the Transaction, \$27.0 million of realized gains from the sale of the Investment Partnership's investment in Charter Communications Inc. and \$8.1 million of realized gains from the proceeds from redemptions of the Apollo Strategic Value Fund. These gains were partially offset by the recognition of a loss from the Investment Partnership's investment in Apollo Investment Europe of \$176.0 million. For the year ended December 31, 2011, net realized gains from sales primarily relate to \$56.7 million from the sale of Charter Communications, Inc. equity, \$21.2 million related to the sale of investments within the debt investment vehicles, \$0.8 million for the redemption of Apollo Credit Senior Loan Fund, \$4.0 million from the distribution from liquidating shares of Apollo Strategic Value Fund and Apollo Asia Opportunity Fund, offset in part by a realized loss of \$59.0 million from the impairment of the cost basis of certain debt investment vehicles. The recognition of realized gains and losses generally results in the reclassification of previously recorded unrealized depreciation/appreciation on investments.

Net Change in Unrealized Appreciation/Depreciation on Investments—Our investments are valued as described below under "Critical Accounting Policies – Valuation of Limited Partner Interests and Investments," which resulted in a net change in unrealized appreciation/depreciation for the years ended December 31, 2012 and 2011 of \$308.3 million and \$(141.3) million, respectively. The year over year change in unrealized appreciation/depreciation on investments was primarily due to the significant increase in the valuation of the Investment Partnership's holdings in an opportunistic investment of \$230.0 million, and \$113.1 million of net unrealized gains on substantially all of the Investment Partnership's holdings as a result of the Transaction. These gains were partially offset by the net unrealized losses of approximately \$34.8 million on the Investment Partnership's remaining private equity co-investments. See "Portfolio and Investment Activity" above for additional discussion of the change in unrealized appreciation/depreciation on our investments.

Net Gain (Loss) from Investments— During the year ended December 31, 2012, the net gain from investments was driven by gains in the Investment Partnership's investment in Apollo Life Re Ltd. In addition, there were gains recorded for investments across most sectors, most notably the consumer and retail and packaging and materials sectors as well as the debt investment vehicles, primarily as a result of the Transaction. These gains were partially offset by losses from investments in the chemicals and distribution and transportation sectors.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The table below details the net gain (loss) from investments by sector for private equity co-investments, by credit fund and by opportunistic investment:

<i>(in millions)</i>	For the Twelve Months Ended	
	December 31, 2012	December 31, 2011
<b>Private Equity:</b>		
Chemicals	\$ (33.0)	\$ (57.3)
Consumer and Retail	63.0	35.2
Debt Investment Vehicles	24.9	(43.4)
Distribution and transportation	(29.4)	(37.8)
Financial and Business Services	5.1	(3.4)
Manufacturing and Industrial	3.1	5.2
Media, Cable & Leisure	22.5	(28.4)
Packaging and Materials	59.9	(30.8)
Total Private Equity	116.1	(160.7)
<b>Credit Funds:</b>		
Apollo Strategic Value Offshore Fund, Ltd.	6.6	14.5
Other Apollo Credit Funds	1.7	4.9
Apollo Life Re Ltd.	230.0	23.8
Other	0.4	(0.9)
<b>Net Gain (Loss) from Investments</b>	<b>\$ 354.8</b>	<b>\$ (118.4)</b>

Net Increase (Decrease) in Net Assets Resulting From Operations—The net increase (decrease) in net assets resulting from operations was approximately \$345.4 million and \$(114.5) million for the years ended December 31, 2012 and 2011, respectively.

## Liquidity and Capital Resources

### The Partnership's Sources of Cash and Liquidity Needs

The Partnership's primary uses of cash are to make capital contributions to the Investment Partnership for use in investments, to pay our operating expenses, to buyback its units under the unit buyback programs approved by the Board of Directors and to make distributions to our unitholders in accordance with our distribution policy. It was determined that the Partnership will not make a tax distribution in 2012 related to the 2011 taxable income generated by the Partnership. The available cash was used to enable the Partnership to execute tender offers. Distributions to the unitholders will be made only if and as determined by the Managing General Partner in its sole discretion, and distributions may in fact not be paid. Although market conditions may currently preclude some or all of these sources of liquidity, we believe that the sources of liquidity described below will be sufficient to fund our working capital requirements within a one year time frame.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Our initial source of liquidity consisted of the capital contributions that we received in connection with the initial offering of common units and related transactions. We contributed all of these net proceeds to the Investment Partnership for use in connection with our investments. As a result, our future liquidity depends primarily on cash distributions made to us by the Investment Partnership, capital contributions that we receive in connection with the issuance of additional equity and the issuance of indebtedness.

We expect to receive cash distributions from the Investment Partnership from time to time to allow us to pay our operating expenses as they become due, buyback our units under the unit purchase programs and to assist us in making cash distributions to our unitholders in accordance with our distribution policy. We believe that the Investment Partnership will fund its distributions with returns generated by its investments. The ability of the Investment Partnership to make cash distributions to us will depend on a number of factors, including among others, the actual results of operations and financial condition of the Investment Partnership, restrictions on cash distributions that are imposed by applicable law or the charter documents of the Investment Partnership, the terms of the senior secured term loan facility, the timing and amount of cash generated by investments that are made by the Investment Partnership, any contingent liabilities to which the Investment Partnership may be subject, the amount of taxable income generated by the Investment Partnership and other factors that the Managing Investment Partner deems relevant. For the year ended December 31, 2012, the Investment Partnership made partners' capital distributions of \$101.8 million to or on behalf of AAA, primarily related to the February and April Tender Offers and for tax withholdings on dividends received.

We may also issue additional common units and other securities to other investors with the objective of increasing our available capital. We generally expect to contribute to the Investment Partnership any cash proceeds that we receive from the issuance of common units or other securities to the extent that such cash is not used to fund distributions to our unitholders, buyback its units under the unit purchase programs, or to pay operating expenses. We expect that such contributions will be used by the Investment Partnership in the ordinary course of business.

Our Investment Manager may, from time to time, directly or through one or more affiliates, purchase our common units in the open market at prevailing prices, which may be used for compensation or other general purposes.

In November 2011, the Board of Directors of the Managing General Partner agreed with Apollo Alternative Assets to amend and restate the services agreement. The amendments related to the obligations of affiliates of Apollo Alternative Assets to reinvest a portion of the carried interests received by them in respect of investments made by the Investment Partnership in common units or restricted depositary units. The amendments require Apollo Alternative Assets (or its affiliates) to purchase common units or restricted depositary units in the market rather than subscribing for and being issued new common units or restricted depositary units when making a reinvestment of a portion of its carried interests from AAA. Apollo shall not be required to make these market purchases in any quarter where the amount of allocable carried interest to be

# Management's Discussion and Analysis of Financial Condition and Results of Operations

reinvested is de minimis, and in such event the allocable carried interest will be rolled forward to subsequent quarters until such time as it is of a sufficient size to be used to acquire common units. In addition, Apollo shall not be obliged to make acquisitions of units or restricted depositary units in a particular quarter where the market price has increased above a pre-defined threshold. In such circumstances the allocable carried interest shall again be rolled over to the subsequent quarter. This is being done to reduce the risk of market manipulation of the unit price. Where Apollo has been unable to invest its allocable carried interest in three consecutive quarters or open window periods, whichever is longer, it shall be obliged to invest the relevant allocable carried interest by way of a subscription for new units or restricted depositary units on the same basis as done prior to this amendment or (at its option) purchase in the market at whatever price is available. No lock-up shall be imposed on the units or restricted depositary units acquired by Apollo pursuant to the above arrangement as such a lock-up would have the effect of reducing liquidity of the units and restricted depositary units.

On October 31 2012, the Board of Directors of the Managing General Partner agreed with Apollo Alternative Assets to amend and restate the services agreement as a result of the Transaction. The amendment related to the quarterly management fee that will be paid until December 31, 2014 (but services will continue until December 31, 2020 for the purposes of the unwind fee as described below), calculated and paid by AAA in arrears, in an aggregate amount equal to one-fourth of (i) all Adjusted Assets up to and including \$3.0 billion multiplied by 1.25% plus (ii) all Adjusted Assets in excess of \$3.0 billion multiplied by 1.0%. In the event that AAA makes a tender offer for all or substantially all of its units where the consideration is to be paid in Athene shares (or an alternative transaction that is no less favorable, in all material respects to the AAA unitholders as a whole), the management fee will be unwound and a lump sum payment will be made to Apollo equal to the remaining management fee that would have been due until the expiration date (December 31, 2020), using an 8% discount rate and assuming a 14% growth rate to then existing management fees, compounded annually, until the expiration date, subject to a cap of \$30.0 million if the realization event commences in 2013, \$25.0 million if the realization event commences in 2014, \$20.0 million if the realization event commences in 2015 and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash or Athene shares valued at the then fair market value (or an equivalent derivative). In addition, any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

In fulfillment of Apollo's obligation to reinvest a portion of the carried interests received by it in respect of investments made by the Investment Partnership as set forth in its prospectus, in July 2011 and April 2011, AAA issued 10,076 common units and 24,482 common units, respectively, in the form of restricted depositary units, to AAA Holdings, L.P., an affiliate of Apollo, at a price per unit of \$12.31 and \$12.56, respectively. During the year ended December 31, 2012, an affiliate of Apollo purchased 170,926 units in the market as part of the carried interest reinvestment program for an average price per unit of \$10.89.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

On February 10, 2012, AAA commenced an offer (the "February Tender Offer") to purchase common units or restricted depositary units (collectively "Units"), at prices ranging from \$9.20 to \$10.70 per Unit. Under the terms of the February Tender Offer, AAA purchased 5,000,000 Units at a price per unit of \$10.00. The amount tendered was \$50.0 million (\$50.3 million inclusive of expenses). The Investment Partnership made a distribution of \$50.0 million to AAA for the amount of the February Tender Offer and is expected to make a distribution to cover the expenses of \$0.3 million. The Units acquired in the February Tender Offer were cancelled.

On April 20, 2012, AAA commenced a tender offer (the "April Tender Offer") to purchase a portion of its outstanding Units for a maximum aggregate payment of up to \$50.0 million of cash. Under the terms of the April Tender Offer, AAA purchased 4,967,462 Units at a price per unit of \$10.00. The amount tendered was \$49.7 million (\$49.8 million inclusive of expenses). The Investment Partnership made a distribution of \$49.7 million to AAA for the amount of the April Tender Offer and is expected to make a distribution to cover the expenses of \$0.1 million. The Units acquired in the April Tender Offer were cancelled.

The boards of directors of the Managing General Partner and the Managing Investment Partner have granted Apollo Alternative Assets as their manager, the right, at such times and in such manner as it believes appropriate, through June 30, 2013, to cause AAA to purchase, either directly or through one or more of its affiliates, AAA Units. This authority is limited to a maximum aggregate consideration of \$50 million, which represented 3.4 million units based on the closing price at December 31, 2012. Such repurchases may take the form of tender offers, block trades, on-market buyback program, direct off-market trades or other forms of repurchase. In light of these approvals, Apollo Alternative Assets intends to continue monitoring the trading performance of AAA in the market and may, from time to time, cause AAA to purchase Units either directly or through one or more affiliates, when it believes appropriate.

For the reasons described above, as well as under "The Investment Partnership's Sources of Cash and Liquidity Needs," the Managing Partner has a reasonable expectation that AAA has adequate sources of liquidity to continue to conduct business for at least the next year. Accordingly, we continue to adopt the going concern basis in preparing the financial statements.

## **The Investment Partnership's Sources of Cash and Liquidity Needs**

During the year ended December 31, 2012, cash decreased approximately \$211.2 million. Cash provided by operating activities of the Investment Partnership was \$303.4 million, primarily comprised of \$137.1 million of proceeds from private equity co-investments, specifically \$83.7 million of distributions from LeverageSource, L.P., \$40.0 million related to the sale of Charter Communications, Inc. and \$13.3 million from the partial sale of the investment in Noranda Aluminum. The Investment Partnership also received proceeds of \$82.9 million related to the Transaction, \$59.5 million provided by the redemptions of the Investment Partnership's interests in Apollo Asia Opportunity Fund, and \$21.0 million from the distribution of liquidating shares of the Apollo Strategic Value Fund. Cash used in financing activities was approximately \$514.6 million, which was mainly comprised of the repayment of the outstanding balance of the

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Investment Partnership's credit facility of \$402.5 million, partner's capital distributions of \$101.8 million for the February and April Tender Offers, and \$10.3 million to the Investment Partnership's General Partner primarily for realized carried interest on co-investments alongside Apollo Investment Fund VII.

During the year ended December 31, 2011, cash decreased \$119.7 million. Cash provided by operating activities of the Investment Partnership was \$48.3 million, primarily due to \$94.8 million in net proceeds from Other Apollo Credit Funds, which included \$67.4 million provided by distributions from Apollo Investment Europe, including the impact of foreign currency exchange, \$9.9 million for net distributions from Apollo European Principal Finance Fund and net proceeds of \$17.5 million related to the Apollo Credit Senior Loan Fund. In addition, \$26.2 million was provided by the redemptions of a portion of the Investment Partnership's interests in the Apollo Asia Opportunity Fund and the Apollo Strategic Value Fund, \$91.6 million in net proceeds from private equity co-investments, primarily related to the sale of Charter Communications Inc. of \$91.2 million. Cash provided by operating activities of the Investment Partnership was partially offset primarily by a net \$157.1 million investment in Apollo Life Re Ltd., and an investment in GA Data Holdings Ltd. of \$13.1 million. Cash used in financing activities was \$168.0 million, primarily related to the partial repayment of the Investment Partnership's senior secured revolving credit facility of \$137.0 million, as well as \$33.4 million in partner's capital distributions mainly to fund AAA's distribution to unitholders and to pay operating expenses offset by \$2.0 million of incremental borrowings under the newly amended secured term loan facility.

The Investment Partnership uses its cash primarily to fund investments, to make distributions to AAA, to pay its operating expenses and to fund any distributions to Apollo affiliates pursuant to the carried interest that is applicable to our investments. The Investment Partnership is also required, under the terms of the senior secured term loan agreement, to make mandatory prepayments of principal as certain investment realizations and asset sales are made. On November 1, 2012, AAA Investments repaid the remaining balance of \$305.2 million on its term loan outstanding. Taking into account generally expected market conditions, we believe that the sources of liquidity described below will be sufficient to fund the working capital requirements of the Investment Partnership. On December 16, 2009, the co-investment agreements with Apollo Investment Fund VI and Apollo Investment Fund VII were amended. See "Portfolio and Investment Activity - Private equity co-investments in Apollo Investment Fund VI and Apollo Investment Fund VII portfolio companies" for additional information regarding the amendments. Under the co-investment agreement with Apollo Investment Fund VII, the Investment Partnership committed to co-invest an amount equal to 5% in 2008 and 0% for all subsequent years through 2012.

The Investment Partnership's investment in the Apollo Strategic Value Fund was in liquidating shares issued by the Apollo Strategic Value Fund. As investments were sold, the Investment Partnership was allocated the proceeds from such disposition less its proportionate share of any current expenses incurred by the Apollo Strategic Value Fund. During the years ended

# Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2012 and 2011, the Investment Partnership received proceeds from redemptions of \$21.0 million and \$10.0 million, respectively, from the Apollo Strategic Value Fund.

A portion of the Investment Partnership's investment in Apollo Asia Opportunity Fund was in liquidating shares. The liquidating shares were initially allocated a pro rata portion of each of the Apollo Asia Opportunity Fund's existing investments and liabilities, and as those investments were sold, the Investment Partnership was allocated the proceeds from such disposition less its proportionate share of any current expenses incurred or reserves set by the Apollo Asia Opportunity Fund. During the years ended December 31, 2012 and 2011, the Investment Partnership received proceeds from redemptions of \$59.5 million and \$16.2 million, respectively, from the Apollo Asia Opportunity Fund.

During the year ended December 31, 2012, Apollo Investment Europe was operating under a shareholder-approved monetization plan, the primary objective was to maximize shareholder recovery value by (i) opportunistically selling Apollo Investment Europe's assets over a three-year period ending July 2012 (subject to a one-year extension with the consent of a majority of the Apollo Investment Europe's shareholders) and (ii) reducing the overall costs of the fund. During the year ended December 31, 2012, the Investment Partnership received distributions of \$15.1 million from Apollo Investment Europe.

The Investment Partnership used the cash that it received from us in connection with the initial offering and related transactions to fund its initial liquidity needs. Because the Investment Partnership may follow an over-commitment approach as described below under "Commitments and Contingencies" when making investments, subject to mandatory cash and liquid asset tests required under the credit agreement, the amount of capital committed by the Investment Partnership may ultimately exceed its available cash at a given time. Any available cash that is held by the Investment Partnership is temporarily invested in accordance with our cash management policy, which provides liquidity for funding capital calls that may be made by the private equity funds and credit funds in which the Investment Partnership has made commitments.

The Investment Partnership receives cash from time to time from the investments that it makes. The source of cash is in the form of dividends on equity investments, payments of interest and principal on fixed income investments and cash consideration received in connection with the disposal or realization of investments. Temporary investments made in connection with our cash management activities provide a more regular source of cash than less liquid private equity, credit and opportunistic investments, but generate returns that are generally lower than returns generated by private equity, credit and opportunistic investments. Other than amounts that are used to pay expenses or that are distributed to us, any returns generated by investments made by the Investment Partnership are reinvested in accordance with our investment policies and procedures.

We may make further capital contributions to the Investment Partnership from time to time in the future with the objective of increasing the amount of investments that are made on our behalf.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

We believe that any further capital contributions will consist primarily of the capital contributions that we receive from investors in connection with future issuances of common units, including common units issued to affiliates of Apollo pursuant to our services agreement.

The Managing Investment Partner has reviewed the Investment Partnership's current cash balance and its future obligations and has a reasonable expectation that the Investment Partnership has adequate sources of liquidity to continue to conduct business for at least the next year. This assessment is based on historic and predicted timing of capital calls for the Investment Partnership's unfunded commitments, its expected operating expenses, present sources of liquidity and the ability to raise cash through sales of investments and other activities.

While it may not be accomplished under current market conditions, the Investment Partnership may enter into one or more additional credit facilities and other financial instruments from time to time with the objective of funding our liquidity needs, increasing the amount of cash that it has available for working capital, coverage of the existing credit facility, or for making additional investments or temporary investments. These debt financing arrangements may include a working capital facility that may be used to fund short-term liquidity needs, warehousing credit facilities under which specific investments will be pledged as collateral to a warehouse lender and repurchase agreements pursuant to which particular investments will be sold to counterparties with an agreement to repurchase the investments at a price equal to the sale price plus an interest factor. The Investment Partnership may also use match-funded, non-recourse debt in the form of securitization transactions, collateralized debt obligations or one or more extendible asset-backed commercial paper programs in order to leverage investments. Depending on the circumstances, other forms of indebtedness may also be used.

## *Credit Facility*

In 2007, the Investment Partnership obtained a \$900 million senior secured revolving credit facility from certain U.S. financial institutions with the objective of funding the liquidity needs, increasing the amount of cash that is available for working capital and for making additional investments or temporary investments. As a result of debt purchases and pay downs, the revolving credit facility was permanently reduced to \$537.5 million. On December 2, 2011, the Investment Partnership amended its senior secured revolving credit facility and converted it to a \$402.5 million senior secured term loan facility that matures on June 30, 2015.

On November 1, 2012, AAA Investments repaid the remaining balance of \$305.2 million on its term loan outstanding.

The financial institutions have a security interest in the equity interests directly owned by the Investment Partnership in each AAA Guarantor. Amounts outstanding under the senior secured term loan facility bear interest at (a) for any Eurocurrency loan, the adjusted LIBOR plus 3.75% and (b) for any ABR loan, the Alternate Base Rate plus 2.75%. Under the senior secured term loan facility, the Investment Partnership is required to make scheduled amortization payments of 20% of the outstanding principal amount of term loans per quarter beginning in December 2014.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

It is also required to make mandatory prepayments for certain investment realizations, asset sales, debt incurrence and equity issuances. The prepayment amount will range from 50% to 100% of net proceeds, as defined, depending on the applicable asset to debt ratio level and whether an event of default is continuing. The amount outstanding under the senior secured term loan facility cannot exceed the borrowing base. The borrowing base is based on the value of the investments held by the Investment Partnership, including temporary investments, multiplied, in each case, by a specified advance rate (which depends on the type of investment generally ranging from 100% for cash and cash equivalents to 0% for certain equity investments). The Investment Partnership is also required to maintain total assets to total net debt in excess of 3.0 to 1.0 from December 2, 2011 through December 31, 2012, 3.5 to 1.0 from January 1, 2013 through December 31, 2013 and 4.0 to 1.0 thereafter. The Investment Partnership is also required to maintain cash and liquid investments in excess of 125% of the debt and interest due in the next three months plus unfunded capital commitments. A restricted payment basket is available under the senior secured term loan facility if the applicable restricted payment asset to debt test (3.5 to 1.0 from December 2, 2011 through December 31, 2012, 4.0 to 1.0 from January 1, 2013 through December 31, 2013 and 4.5 to 1.0 thereafter) is met, and tax distributions are generally permitted.

## **Commitments and Contingencies**

As of December 31, 2012, the Investment Partnership had no outstanding commitments for future funding.

## **Legal Proceedings**

AAA and the Investment Partnership, may, from time to time, be party to various legal actions arising in the ordinary course of business including claims and litigations, reviews, investigations or proceedings by governmental and self regulatory agencies regarding their respective businesses. It is the opinion of the Managing General Partner and Managing Investment Partner, after consultation with counsel, that there are presently no existing matters that would result in a material adverse effect on the financial condition of the Partnership.

For information concerning legal proceedings affecting Apollo, please refer to the various securities filings of Apollo Global Management, LLC, which are publicly available on the United States Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

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## **Risk Factors**

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### **Market Risks**

We are exposed to a number of market risks due to the types of investments that we make and the manner in which we and the Investment Partnership raise capital. Our exposure to market

# Management's Discussion and Analysis of Financial Condition and Results of Operations

risks include declines in the values of our investments, movements in prevailing interest rates, changes in foreign currency exchange rates and controls, availability of credit, inflation rates, government regulation and commodity prices. These market risks are outside of our control and may affect the level and volatility of securities prices and the liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to these risks. We may seek to mitigate such market risks through the use of hedging arrangements and derivative instruments, which may or may not be effective and could subject us to additional market risk. Additionally, the entities in which we invest or co-invest alongside may also seek to hedge or otherwise mitigate such risks, subject to their internal policies, which may or may not be effective and could result in increased risks. Additionally, we are exposed to concentration risk since Athene is our primarily investment and various risks within each portfolio company in which we invest including market and other risks related to their business activities, including leverage and asset mix. Apollo Alternative Assets, as the service provider under our services agreement, is responsible for monitoring all market risks and for carrying out risk management activities relating to our investments.

Following weak performance in 2011, global capital markets experienced significant improvement in 2012. However, the current environment continues to be characterized by uncertainty particularly relating to the economic health of certain parts of Europe and the United States' fiscal cliff. The S&P 500 returned approximately 13.4% over the course of 2012, while the VIX (a measure of equity market volatility) dropped approximately 23.0% during the same period. The credit markets in which Apollo is most active generally improved significantly and financing activity increased dramatically compared with late 2011. Longer term, serious financial and liquidity problems remain in Europe and elsewhere in the world. Should the economic outlook worsen, we and the vehicles we invest in or alongside may experience a tightening of liquidity, and reduced earnings and cash flows. Such market conditions could also have an impact on our ability to liquidate positions in a timely and efficient manner and maintain adequate reserves required under our credit facility. As a result, despite improvements in the global capital markets conditions in 2012 versus 2011, the sources of liquidity described herein under "Liquidity and Capital Resources" may not only be more difficult but also impossible to obtain in future market environments. Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in net income relating to changes in market and economic conditions. If volatility worsens, there can be no assurance that we will not experience a material adverse effect on our business, assets and liabilities and results of operations.

## Global Financial Crisis

Events during the past few years in the global capital markets illustrate that the current environment is one of extraordinary and unprecedented uncertainty and volatility for financial services companies and other market participants and that such uncertainty and volatility has had, and could continue to have, a material adverse effect on the functioning of capital markets, and on the business and operations of asset management businesses and other market

# Management's Discussion and Analysis of Financial Condition and Results of Operations

participants, worldwide. In light of the uncertainty in the financial services industry, our financial condition may be materially adversely affected, and we may become subject to new legal or regulatory requirements, suffer reputational harm or encounter unforeseen risks that could have a material adverse effect on our business and operations and those of the Investment Partnership. We may be affected by reduced opportunities to exit and realize value from our investments, by lower than expected returns on investments made prior to the deterioration in the credit markets and by the possibility that we may not be able to find suitable investments in which to deploy our capital. In light of volatile market and economic conditions, companies in which we have invested (either directly or through investments in affiliated funds) may experience decreased revenues, financial losses, credit rating downgrades, difficulty in obtaining access to financing and increased funding costs. These companies may also have difficulty in expanding their businesses and operations or be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions and volatility, we may have difficulty accessing the financial markets, which could make it even more difficult or impossible for us to obtain funding for additional investments and harm our operating results. Significant market volatility may result in lower investment returns, which would further adversely affect our net income. The extent to which the underlying causes of instability are pervasive throughout global financial markets and have the potential to cause renewed instability is not yet clear, and despite the recovery of global capital markets from historically low levels, the sustainability of any recovery of financial markets cannot be foreseen. In addition, due to the uncertain stability of global financial institutions, the security of assets held by any financial institution cannot be guaranteed, notwithstanding the terms of any agreement with such institution. These events, and their underlying causes, are likely to be the catalyst for changes in worldwide financial regulation for some time, and may result in major and unavoidable losses or additional costs to the Investment Partnership.

## **Securities Market Risks**

Our investments may include investments in publicly traded securities. The Investment Partnership and the private equity funds and credit funds with which it invests may also make investments in publicly traded securities, derivatives and securities linked to public securities or in portfolio companies whose securities are publicly traded or offered to the public in connection with the process of exiting an investment. The market prices and values of publicly traded securities may be volatile and are likely to fluctuate due to a number of factors beyond our control. These factors include actual or anticipated fluctuations in the quarterly and annual results of such companies or of other companies in the industries in which they operate, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, industry conditions, changes in government regulation, shortfalls in operating results from levels forecast by securities analysts, the general state of the securities markets and other material events, such as significant management changes, refinancings, acquisitions and dispositions. The Investment Partnership is required to value investments based on current market prices at the end of each accounting period, which may lead to significant changes in the net asset values and operating results that it reports from quarter to quarter.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Our investments may include investments that are not publicly traded, including privately held securities, bank debt and other private investments. The value of these investments may also fluctuate due to the factors described in the preceding paragraph, which are largely beyond our control. In addition to these factors, these investments are subject to additional risks. For example, in many cases (including publicly traded securities), we may be prohibited by contract or by applicable securities laws from selling privately held securities for a period of time. We generally cannot sell these securities unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability to dispose of an investment may be heavily dependent on the public equity markets, inasmuch as the ability to realize value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investments are held. Furthermore, we may only be able to dispose of large holdings (even of publicly traded equity securities) and holdings of investments in illiquid over-the-counter markets over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. In addition, in periods of extreme market volatility, it may be difficult to sell privately held or illiquid investments even at their current valuation. This is especially true given the significant constriction in the credit markets, making it difficult for potential buyers to obtain the funds necessary to purchase such securities.

## **Prime Brokers**

The Investment Partnership's assets, and the assets of the private equity portfolio companies and credit funds in which we invest, may be held in one or more accounts maintained by prime brokers, which may be located in various jurisdictions. Such brokers, as brokerage firms or commercial banks, are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Investment Partnership's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a prime broker or any of its sub-custodians, agents or affiliates, or a local broker, it is impossible to generalize about the effect of their insolvency on the Investment Partnership and its assets. Investors should assume that the insolvency of any of the prime brokers or such other service providers would result in a loss to the Investment Partnership, which could be material.

## **Credit Risks**

The Investment Partnership incurs indebtedness to fund its liquidity needs, to leverage investments and potentially to leverage certain of our temporary investments. We may also incur additional indebtedness to fund our liquidity needs. The Investment Partnership also makes fixed income investments that are sensitive to changes in interest rates. As a result, we are exposed to risks associated with movements in prevailing interest rates. An increase in interest rates may make it more difficult or expensive for us or for the Investment Partnership to obtain financing, may negatively impact the values of fixed income investments and may decrease the returns that our investments generate.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Our ability to achieve attractive rates of return on investments is impacted by our continued ability to access sufficient sources of indebtedness at attractive rates. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility. There may be times when we might not be able to access those markets at attractive rates, or at all.

We are also subject to additional risks associated with changes in prevailing interest rates due to the fact that a portion of our capital is invested in portfolio companies whose capital structures have a significant degree of indebtedness. Investments in highly leveraged companies are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would be the case if money had not been borrowed. As a result, the risk of loss associated with an investment in a leveraged company is generally greater than for companies with comparatively less debt.

The Apollo funds in which we invest may also choose to use leverage as part of their respective investment programs. The use of leverage poses additional risk and enhances the possibility of a significant loss in the value of the investment portfolio. The fund may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost—and the timing and magnitude of such losses may be accelerated or exacerbated—in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings.

Increases in interest rates could also decrease the value of fixed-rate debt investments that our funds make.

In addition, market conditions may reduce the availability of credit, which may have a material adverse effect on our ability to achieve our investment objective with respect to any particular investment and/or the Investment Partnership's entire portfolio. Large commercial and investment banks, which have traditionally provided such financing, may demand higher rates, higher equity requirements as part of private equity investments, more restrictive covenants and generally more onerous terms in order to provide such financing, and in some cases refuse to provide financing for acquisitions that would have been readily financed during the past. In the event that we are unable to obtain committed debt financing for potential acquisitions or can only

# Management's Discussion and Analysis of Financial Condition and Results of Operations

obtain debt at an increased interest rate or on unfavorable terms, we may have difficulty completing otherwise profitable investments or may generate profits that are lower than would otherwise be the case, either of which could lead to a decrease in the investment income earned by us. Similarly, the portfolio companies in which we have investments regularly access the corporate debt markets in order to obtain financing for their operations. To the extent that the current credit markets have rendered such financing difficult or impossible to obtain or more expensive, this may negatively impact the operating performance on those portfolio companies and, therefore, our investment returns.

Any of the foregoing circumstances could have a material adverse effect on our net assets, results of operations and cash flow.

## **Foreign Currency Risks**

Our functional currency and the functional currency of the Investment Partnership is the U.S. dollar, and as a result, the investments that are carried as assets in our financial statements and the investments that are carried as assets in the Investment Partnership's financial statements are stated in U.S. dollars. When valuing investments that are denominated in currencies other than the U.S. dollar, we and the Investment Partnership are required to convert the values of such investments into U.S. dollars based on prevailing exchange rates as of the end of the applicable accounting period. As a result, changes in exchange rates between the U.S. dollar and other currencies could lead to significant changes in the net asset values that we and the Investment Partnership report from quarter to quarter. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Through December 31, 2012, the Investment Partnership did not hedge its investments denominated in foreign currency.

## **Hedging Arrangements**

When managing our exposure to market risk, Apollo Alternative Assets may enter into transactions in a variety of cash and derivative financial instruments to limit our exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates and currency exchange rates. Such derivative contracts may include forward contracts, options, swaps, caps, collars and floors. The scope of risk management activities undertaken by Apollo Alternative Assets will vary based on the level and volatility of interest rates, prevailing foreign currency exchange rates, the type of investments that are made and other changing market conditions. The use of hedging transactions and other derivative instruments to reduce the effects of a decline in the value of a position does not eliminate the possibility of fluctuations in the value of the position or prevent losses if the value of the position declines. However, such activities can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of the position. Such transactions may also limit the opportunity for gain if the value of a position increases. Moreover, it may not be possible to limit the exposure to a market development that is

# Management's Discussion and Analysis of Financial Condition and Results of Operations

so generally anticipated that a hedging or other derivative transaction cannot be entered into at an acceptable price.

The success of any hedging or other derivative transaction that Apollo Alternative Assets or our portfolio companies enter into generally depends on its ability to correctly predict market changes. As a result, while Apollo Alternative Assets or a portfolio company may enter into such transactions in order to reduce exposure to market risks, unanticipated market changes may result in poorer overall investment performance than if the transaction had not been executed. In addition, the degree of correlation between price movements of the instruments used in connection with hedging activities and price movements in a position being hedged may vary. Moreover, for a variety of reasons, Apollo Alternative Assets or our portfolio companies may not seek to or be successful in establishing a perfect correlation between the instruments used in hedging or other derivative transactions and the position being hedged. An imperfect correlation could prevent Apollo Alternative Assets or our portfolio companies from achieving the intended result and create new risks of loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the values of our investments, because the values of our investments are likely to fluctuate as a result of a number of factors, some of which will be beyond our control.

## **Structure of Ownership Risks**

Under AAA's limited partnership agreement, AAA unitholders are not entitled to vote on matters relating to the Partnership or to participate in the management or control of the business. In particular, AAA unitholders do not have the right to cause the Partnership's Managing General Partner to withdraw from the partnership, to cause a new general partner to be admitted to the Partnership, to appoint new directors to AAA's Managing General Partner's board of directors, to remove existing directors from AAA's Managing General Partner's board of directors, to prevent a change of control of AAA's Managing General Partner or to propose changes to or otherwise approve the Investment Partnership's investment policies and procedures. As a result, unlike holders of common stock of a corporation, AAA unitholders are not able to influence the direction of the business and affairs, including investment policies and procedures, or to cause a change in management, even if they are unsatisfied with the performance of the Partnership's Managing General Partner.

In addition, the Partnership's Managing General Partner's board of directors has broad discretion to change the investment policies and procedures and is able to increase the percentage of the adjusted assets that may be invested in private equity funds, credit funds, or additional investments, which would be a significant change from the investment objectives described in the Partnership's prospectus. AAA unitholders do not have any right to refuse to consent to a change in the Investment Partnership's investment policies and procedures.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires the making of certain estimates and assumptions that could materially affect the amounts reported in the financial statements and related notes. For a description of our significant accounting policies, see Note 2 to the financial statements of the Partnership and the Investment Partnership. Critical accounting policies are those policies that are the most important to the financial statements and/or those that require significant management judgment related to matters that are uncertain. The following valuation policies are considered critical accounting policies due to the judgment and significance involved in their applications. The development and selection of these policies and their related disclosures have been reviewed by the board of directors of our Managing General Partner and the board of directors of the Managing Investment Partner.

### Valuation of Investments

Our Managing General Partner's board of directors is responsible for reviewing and approving valuations of investments that are carried as assets in our financial statements, and the board of directors of the Managing Investment Partner is responsible for reviewing and approving valuations of investments that are carried as assets in the Investment Partnership's financial statements. Because valuing investments requires the application of valuation principles to the specific facts and circumstances of the investments, in satisfying their responsibilities, each board of directors utilizes the services of Apollo Alternative Assets and its affiliates to estimate the investment values. An investment for which a market quotation is readily available is valued using a market price or a quoted price from an active market which is either directly or indirectly observable for the investment as of the end of the applicable accounting period. An investment for which a market quotation is not readily available is valued at the investment's fair value as of the end of the applicable accounting period as determined in good faith. While there is no single method for determining fair value in good faith, the methodologies described below are generally followed when the fair value of an individual investment is determined.

### Value of Limited Partner Interest in the Investment Partnership

Our limited partner interest in the Investment Partnership does not have a readily available market value and is valued using fair value pricing which is based on the Net Asset Value of the Investment Partnership. Such limited partner interest is generally valued at an amount that is equal to the aggregate value of the assets of the Investment Partnership that would be received if such assets were sold or transferred in an orderly transaction between market participants as of a measurement date, and the distribution of the net proceeds from such sales were distributed to our partnership in accordance with the Investment Partnership's limited partnership agreement. This amount is generally expected to be equal to the Investment Partnership's net asset value as of the valuation date, as adjusted to reflect the allocation of net assets to the Investment Partnership's General Partner. The Investment Partnership's net asset value is expected to increase or decrease from time to time based on the amount of investment income, operating

# Management's Discussion and Analysis of Financial Condition and Results of Operations

expenses and realized gains and losses on the sale or repayment of investments, if any, that it records and the net changes in the appreciation and depreciation of the investments that it carries as assets in its financial statements. Such investments consist of limited partner interests in Apollo-sponsored private equity funds, co-investments in portfolio companies of Apollo-sponsored private equity funds, opportunistic investments and temporary investments, which are valued using market prices or fair value pricing as described below.

## **Values of Co-Investments in Portfolio Companies and Opportunistic Investments**

Depending on the circumstances, co-investments in portfolio companies of Apollo-sponsored private equity funds and equity investments that are made in other companies as opportunistic investments may be publicly traded, in which case the investments are valued using period-end quoted market prices, or non-publicly traded, in which case the investments are valued at their fair value as determined in good faith. When market prices are used, they do not necessarily take into account various factors which may affect the value that the Investment Partnership would actually be able to realize in the future, such as the possible illiquidity associated with larger ownership positions, subsequent illiquidity in a market for a company's securities, future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance.

When determining fair value when no market value exists, the value attributed to an investment is generally based on the enterprise value at which the underlying company could be sold or transferred in an orderly transaction between market participants as of a measurement date. A market multiple approach that considers a specific financial measure (such as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), adjusted EBITDA, cash flow, net income, revenues, or net asset value), a discounted cash flow approach, an option valuation methodology or a liquidation analysis is generally used. Consideration may also be given to such factors as the company's historical and projected financial data, valuations given to comparable companies, the size and scope of the company's operations, expectations relating to the market's receptivity to an offering of the company's securities, any control associated with interest in the company that is held by Apollo and its affiliates, including the Investment Partnership, information with respect to transactions or offers for the portfolio company's securities (including the transaction pursuant to which the investment was made and the period of time that has elapsed from the date of the investment to the valuation date), applicable restrictions on transfer, industry information and assumptions, general economic and market conditions and other factors deemed relevant.

## **Taxes and Maintenance of Status as Partnerships for U.S. Federal Tax Purposes**

AAA and the Investment Partnership are not taxable entities in Guernsey, have made protective elections to be treated as partnerships for U.S. federal income tax purposes and incur no U.S. federal income tax liability. Each unitholder is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. federal income tax liability regardless of whether cash distributions are made.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Our investment policies and procedures provide that our investments must be made in a manner that permits AAA and the Investment Partnership to continue to be treated as partnerships for U.S. federal income tax purposes. To maintain compliance with this requirement, under current U.S. federal income tax laws, 90% or more of each partnership's respective gross income (determined by reference to gross income included in determining taxable income for U.S. federal income tax purposes) for every taxable year, including any short year resulting from a termination under Section 708 of the U.S. Internal Revenue Code, will be required to consist of "qualifying income" as defined in Section 7704 of the U.S. Internal Revenue Code. Qualifying income generally includes, among other things:

- interest not derived in the conduct of a financial or insurance business or excluded from the term "interest" under section 856(f) of the U.S. Internal Revenue Code;
- dividends; and
- any gain from the disposition of a capital asset held for the production of qualifying interest or dividends.

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## Recent Accounting and Reporting Developments

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In December 2011, the FASB issued amended guidance which will enhance disclosures required under U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. As the amendments are limited to disclosure only, the adoption of this guidance is not expected to have a material impact on the financial statements.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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# Financial Statements of AP Alternative Assets, L.P.

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## Index to Financial Statements

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	PAGE
Independent Auditors' Report .....	F-2
Statement of Assets and Liabilities as of December 31, 2012 and 2011 .....	F-4
Statement of Operations for the years ended December 31, 2012 and 2011 .....	F-5
Statement of Changes in Net Assets for the years ended December 31, 2012 and 2011 ...	F-6
Statement of Cash Flows for the years ended December 31, 2012 and 2011 .....	F-7
Notes to Financial Statements.....	F-8

# Financial Statements of AP Alternative Assets, L.P.

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## Independent Auditor's Report

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To the Board of Directors of the Managing General Partner and Common Unit Holders of  
AP Alternative Assets, L.P.  
St. Peter Port, Guernsey

We have audited the accompanying financial statements of AP Alternative Assets, L.P. (the "Partnership"), which comprise the statement of assets and liabilities as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets, cash flows for the years then ended, and the related notes to the financial statements.

### The Managing General Partner's Responsibility for the Financial Statements

The Managing General Partner is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the Partnership's preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Managing General Partner, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Financial Statements of AP Alternative Assets, L.P.

## **Opinion**

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of AP Alternative Assets, L.P. as of December 31, 2012 and 2011, the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of matter – Fair Value of Investments in AAA Investments, L.P.**

As discussed in Notes 2 and 3 to AP Alternative Assets, L.P.'s financial statements, the financial statements include an investment valued at \$1,666.4 million (100.0% of total assets) as of December 31, 2012, and \$1,480.2 million (100.0% of total assets) as of December 31, 2011, whose fair value has been estimated by the General Partner in the absence of readily determinable fair values. Due to the inherent uncertainty of the valuation, the estimated value may differ materially from the value that would have been realised had a disposal of the investment been made between a willing buyer and seller.

## **Deloitte LLP**

Chartered Accountants  
St. Peter Port, Guernsey  
February 7, 2013

# Financial Statements of AP Alternative Assets, L.P.

<b>AP ALTERNATIVE ASSETS, L.P.</b>		
<b>STATEMENT OF ASSETS AND LIABILITIES</b>		
<b>(in thousands, except per unit amounts)</b>		
	As of December 31, 2012	As of December 31, 2011
<b>ASSETS</b>		
Investment in AAA Investments, L.P. (cost of \$1,561,154 and \$1,662,999 at December 31, 2012 and 2011, respectively)	\$ 1,666,448	\$ 1,480,152
Other assets	296	327
<b>TOTAL ASSETS</b>	<b>1,666,744</b>	<b>1,480,479</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	651	727
Due to affiliates	3,224	229
<b>NET ASSETS</b>	<b>\$ 1,662,869</b>	<b>\$ 1,479,523</b>
<b>NET ASSETS CONSIST OF:</b>		
Partners' capital contribution, 80,215,738 and 90,183,200 net common units outstanding at December 31, 2012 and 2011, respectively)	\$ 1,683,764	\$ 1,783,810
Partners' capital distributions	(112,309)	(110,139)
Accumulated increase (decrease) in net assets resulting from operations	91,414	(194,148)
	<b>\$ 1,662,869</b>	<b>\$ 1,479,523</b>
Net asset value per common unit	<b>\$ 20.73</b>	<b>\$ 16.41</b>
Market price per common unit	<b>\$ 14.80</b>	<b>\$ 8.45</b>
See accompanying notes to financial statements.		

# Financial Statements of AP Alternative Assets, L.P.

AP ALTERNATIVE ASSETS, L.P. STATEMENT OF OPERATIONS (in thousands)		
	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
<b>INVESTMENT INCOME (LOSS) (ALLOCATED FROM AAA INVESTMENTS, L.P.)</b>		
Interest, dividends and gains from short-term investments	\$ 28,925	\$ 38,136
Expenses	(38,311)	(34,256)
	(9,386)	3,880
<b>EXPENSES</b>		
General and administrative expenses	(2,578)	(2,549)
<b>NET INVESTMENT (LOSS) INCOME</b>	<b>(11,964)</b>	<b>1,331</b>
<b>REALIZED AND UNREALIZED GAINS (LOSSES) FROM INVESTMENTS (ALLOCATED FROM AAA INVESTMENTS, L.P.)</b>		
Net realized gains from sales/dispositions on investments	46,502	22,948
Net change in unrealized appreciation/depreciation on investments	251,024	(150,774)
<b>NET GAIN (LOSS) FROM INVESTMENTS</b>	<b>297,526</b>	<b>(127,826)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 285,562</b>	<b>\$ (126,495)</b>
See accompanying notes to financial statements.		

# Financial Statements of AP Alternative Assets, L.P.

<b>AP ALTERNATIVE ASSETS, L.P.</b>		
<b>STATEMENT OF CHANGES IN NET ASSETS</b>		
<b>(in thousands)</b>		
	<b>For the Year Ended December 31, 2012</b>	<b>For the Year Ended December 31, 2011</b>
<b>INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>		
Net investment (loss) income	\$ (11,964)	\$ 1,331
Net gain (loss) from investments (allocated from AAA Investments, L.P.)	297,526	(127,826)
Net increase (decrease) in net assets resulting from operations	285,562	(126,495)
<b>NET CHANGE FROM CAPITAL TRANSACTIONS</b>		
Partners' capital distributions	(2,170)	(31,130)
Partners' capital contributions	—	432
Purchase of common units	(100,046)	—
Net decrease in net assets resulting from capital transactions	(102,216)	(30,698)
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>183,346</b>	<b>(157,193)</b>
<b>NET ASSETS — Beginning of year</b>	<b>1,479,523</b>	<b>1,636,716</b>
<b>NET ASSETS — End of year</b>	<b>\$ 1,662,869</b>	<b>\$ 1,479,523</b>
<b>See accompanying notes to financial statements.</b>		

# Financial Statements of AP Alternative Assets, L.P.

<b>AP ALTERNATIVE ASSETS, L.P. STATEMENT OF CASH FLOWS (in thousands)</b>		
	<b>For the Year Ended December 31, 2012</b>	<b>For the Year Ended December 31, 2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 285,562	\$ (126,495)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash flows provided by operating activities:		
Net investment loss (income) (allocated from AAA Investments, L.P.)	9,386	(3,880)
Net (gain) loss from investments (allocated from AAA Investments, L.P.)	(297,526)	127,826
Changes in operating assets and liabilities:		
Purchase of limited partner interests in AAA Investments, L.P.	—	(432)
Dividend from AAA Investments, L.P.	99,674	30,249
Decrease in other assets	31	54
Increase in accounts payable, accrued liabilities and due to affiliates	2,919	200
Net cash flows provided by operating activities	<u>100,046</u>	<u>27,522</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Partners' capital contributions	—	432
Partners' capital distributions	—	(27,954)
Purchase of common units	(100,046)	—
Net cash flows used in financing activities	<u>(100,046)</u>	<u>(27,522)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS — Beginning of year	—	—
CASH AND CASH EQUIVALENTS — End of year	<u>\$ —</u>	<u>\$ —</u>
<b>Supplemental Schedule of Non-Cash Financing Activities —</b>		
Partners' capital distribution (paid by Investment Partnership)	<u>\$ 2,170</u>	<u>\$ 3,176</u>
<b>See accompanying notes to financial statements.</b>		

# Financial Statements of AP Alternative Assets, L.P.

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## Notes to Financial Statements

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### 1. BUSINESS

AP Alternative Assets, L.P. (“AAA” or the “Partnership”) is a Guernsey limited partnership whose partners are comprised of (i) AAA Guernsey Limited (the “Managing General Partner”), which holds 100% of the general partner interests in AAA, and (ii) the holders of common units representing limited partner interests in AAA. The common units are non-voting and are listed on NYSE Euronext in Amsterdam, the regulated market of Euronext Amsterdam N.V., under the symbol “AAA”.

The Managing General Partner is a Guernsey limited company and is owned 55% by an individual who is not an affiliate of Apollo Global Management, LLC and its subsidiaries (collectively “Apollo”) and 45% by Apollo Principal Holdings III, L.P., an affiliate of Apollo. The Managing General Partner is responsible for managing the business and affairs of AAA. AAA generally makes all of these investments through AAA Investments, L.P. (the “Investment Partnership”), of which AAA is the sole limited partner. The Partnership’s business consists of making investments in Apollo-sponsored entities, funds and private equity transactions. The Partnership may also invest in additional credit funds, private equity funds and opportunistic investments identified by Apollo Alternative Assets, L.P. (“Apollo Alternative Assets”, the investment manager to both AAA and the Investment Partnership – see Note 5, “Relationship with Apollo and Related Party Transactions”), and in temporary investments that are made in connection with cash management activities. The financial statements of the Investment Partnership, including a schedule of investments, are included elsewhere within this report and should be read in conjunction with the Partnership’s financial statements.

AAA is regulated under the Authorised Closed-ended Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission (“GFSC”) with effect from December 15, 2008 under The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (the “New Rules”). AAA is deemed to be an authorized closed-ended investment scheme under the New Rules.

On October 31, 2012 the Investment Partnership closed on an agreement to contribute substantially all of its investments to Athene Holding Ltd. (“Athene”) in exchange for common shares of Athene, cash and a short term promissory note (the “Transaction”). The Investment Partnership received approximately 46.8 million non-voting common shares of Athene, cash of \$82.9 million and a promissory note with a principal amount of \$113.3 million in exchange of investments with a fair value of approximately \$1,114.3 million. The promissory note will bear interest at a rate of 0.30% per annum, is payable upon demand by the Investment Partnership and Athene may prepay at its option at any time, without penalty. At December 31, 2012, there are an additional 1.5 million shares that will be issued by Athene in exchange for Investment Partnership investments that are pending the receipt of required regulatory consents. The impact of the Transaction resulted in a realized gain of approximately \$178.3 million (or \$2.22 per unit) as of December 31, 2012. In addition, the impact of the transaction resulted in a dilution of

# Financial Statements of AP Alternative Assets, L.P.

approximately \$63.6 million in the Investment's Partnership's interest in Athene and an increase of approximately \$22.1 million of additional allocation to the General Partner at December 31, 2012.

Simultaneously with the approval of the Transaction, the Board approved the removal of the diversification requirements within the Investment Partnership's Investment Policies and Procedures (having received the requisite approval of the independent directors) in order for the Investment Partnership to have Athene as its only investment.

After the Transaction, Athene is the Investment Partnership's only material investment and the Investment Partnership will remain the largest shareholder of Athene with an approximate 77% ownership stake (based on capital invested to date). There will be no management fees payable with respect to the newly acquired Athene shares by the Investment Partnership in the Transaction, which are those shares in excess of the Athene shares the Investment Partnership currently owns or had committed to purchase of approximately 3.8 million at \$11.16 per share according to a pre-existing capital commitment obligation (the "Excluded Shares"). Likewise, affiliates of the Manager will not be entitled to receive any carried interest in respect of the Excluded Shares. The Investment Partnership will continue to pay to the Manager the same management fee on the Investment Partnership's investment in Athene (other than the Excluded Shares), except that the Manager has agreed that the Investment Partnership's obligation to pay the existing management fee shall terminate on December 31, 2014. The Manager has agreed to receive a formulaic unwind of its management fee up to a cap of \$30.0 million if a realization event commences in 2013, \$25.0 million if a realization event commences in 2014, \$20.0 million if a realization event commences in 2015 and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash or Athene shares valued at the then fair market value (or an equivalent derivative). In addition, any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are presented in U.S. dollars. The Partnership and the Investment Partnership follow the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles in the preparation of financial statements in conformity with U.S. GAAP.

AAA does not consolidate the results of operations, assets or liabilities of the Investment Partnership in its financial statements. The financial statements of the Investment Partnership, including a schedule of investments, are included elsewhere within this report and should be read in conjunction with the Partnership's financial statements. AAA has recorded its allocated investment (loss) income and realized and unrealized gains (losses) from investments from the

# Financial Statements of AP Alternative Assets, L.P.

Investment Partnership within the Statement of Operations. Management has evaluated all subsequent events or transactions for potential recognition or disclosure through February 7, 2012, the issuance date of these financial statements.

AAA utilizes an annual reporting schedule comprised of four three-month quarters, with an annual accounting period ending on December 31. The quarterly periods end on March 31, June 30, September 30 and December 31. The financial results presented herein include activity for the years ended December 31, 2012 and 2011 and its financial position at December 31, 2012 and 2011.

The preparation of financial statements in conformity with U.S. GAAP requires the making of certain estimates and assumptions that could materially affect the amounts reported in the financial statements and related notes. Actual results could differ materially from these estimates.

The Managing General Partner has reviewed the Partnership's future obligations and expects the Partnership to continue as a going concern for at least the next year. As also detailed under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" included elsewhere within this report, this assessment is based on the Partnership's expected operating expenses, and because its sources of liquidity depend primarily on distributions by the Investment Partnership, the Investment Partnership's historic and predicted timing of capital calls for its unfunded commitments, present sources of liquidity, borrowing facilities and the ability to raise cash through sales of investments and other activities.

Significant accounting policies are those policies that are the most important to the financial statements and/or those that require significant management judgment related to matters that are uncertain. The following valuation policies are considered critical accounting policies due to the judgment and significance involved in their applications. The development and selection of these policies and their related disclosures have been reviewed by the board of directors of the Managing General Partner and the board of directors of AAA MIP Limited (the "Managing Investment Partner").

**Valuation of Limited Partner Interests**—AAA records its investment in the Investment Partnership at fair value. Valuation of securities held by the Investment Partnership is further discussed in the notes to the Investment Partnership's financial statements, which are included elsewhere in this report.

AAA's investment in the Investment Partnership is valued at \$1,666.4 million (100.2% of net assets) and \$1,480.2 million (100.0% of net assets) as of December 31, 2012 and 2011, respectively. Such investment's fair value has been estimated by the Managing General Partner's board of directors in the absence of readily available fair values. However, because of the inherent uncertainty of the valuation, the estimated value may differ materially from the value that would have been realized had a disposal of the investment been made between a willing buyer and seller. Additionally, widespread economic uncertainty, slowing capital and consumer spending,

# Financial Statements of AP Alternative Assets, L.P.

indeterminate credit markets and volatile equity returns could have effects on the fair value of investments in future periods.

An investment for which a market quotation is not readily available is valued at the investment's fair value as of the end of the applicable accounting period as determined in good faith by the Managing General Partner and the Managing Investment Partner. AAA's investments in limited partner interests in the Investment Partnership do not have a readily available market and are valued by the Managing General Partner and are recorded at the estimated fair value. Such limited partner interests are generally valued at an amount that is equal to the aggregate unrealized value of the assets of the Investment Partnership that AAA would receive if such assets were sold in orderly dispositions over a reasonable period of time between willing parties other than in a forced or liquidation sale, and the distribution of the net proceeds from such sale were distributed to AAA in accordance with the Investment Partnership's limited partnership agreement. This amount is generally expected to be equal to the Investment Partnership's net asset value as of the valuation date, as adjusted to reflect the allocation of net assets to the Investment Partnership's General Partner. The Investment Partnership's net asset value is expected to increase or decrease from time to time based on the amount of investment income, operating expenses and realized gains and losses on the sale or repayment of investments, if any, that it records and the net changes in the appreciation and depreciation of the investments that it carries as assets in its financial statements.

***Fair Value of Financial Instruments***—U.S. GAAP requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. AAA's financial instruments are recorded at fair value or at amounts whose carrying value approximates fair value. See the valuation policy for limited partner interests above.

***Net Investment (Loss) Income and Net Gain (Loss) from Investments***—The Partnership records its proportionate share of the Investment Partnership's investment income, expenses and realized and unrealized gains and losses on investments.

***Expenses***—As the results of operations of the Investment Partnership are not consolidated in AAA's financial statements, the general and administrative expenses are limited to the expenses that AAA directly incurs. These expenses consist primarily of professional fees, directors' fees that the Managing General Partner pays to its independent directors, insurance and other administrative costs.

Neither AAA nor its Managing General Partner employs any of the individuals who carry out the day-to-day management and operations of AAA. The investment professionals and other personnel that carry out investment and other activities are members of the Managing General Partner or employees of Apollo. Their services are provided to AAA or for its benefit in accordance with the services agreement with Apollo Alternative Assets. None of these individuals, including the Managing General Partner's chief financial officer, are required to be

# Financial Statements of AP Alternative Assets, L.P.

dedicated full-time to the business of the Partnership. The Investment Partnership reimburses an affiliate of Apollo Alternative Assets for services provided by an employee of Apollo for assistance with the strategic positioning of AAA.

**Taxes**—The Partnership is not subject to income taxes in Guernsey and is taxable as a partnership for U.S. federal and state income tax purposes. As a partnership, AAA incurs no U.S. federal or state income tax liability directly, and instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction in computing its U.S. federal or state income tax liability. The Partnership has filed U.S. federal and state tax returns for the 2011, 2010 and 2009 tax years. The tax years from 2009 to 2011 are subject to the possibility of an audit until the expiration of the applicable statute of limitations.

The Partnership follows U.S. GAAP when accounting for uncertainty in income taxes recognized in the financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

**Distribution Policy**—The Partnership may make cash distributions (which would be payable to all unitholders) in an amount in U.S. dollars which if paid would generally be expected to be sufficient to permit U.S. unitholders to fund their estimated U.S. tax obligations (including any federal, state and local income taxes) with respect to their distributive share of net income or gain, after taking into account any withholding tax imposed on the Partnership. For any particular unitholder, such distributions (if made) may not be sufficient to pay the unitholder's actual U.S. or non-U.S. tax liability. Under AAA's limited partnership agreement, distributions to the unitholders will be made only as determined by the Managing General Partner in its sole discretion. There is no assurance that distributions will be made. It was determined that the Partnership will not make a tax distribution in 2012 related to the 2011 taxable income generated by the Partnership. The available cash was used to enable the Partnership to execute tender offers.

**Recent Accounting Pronouncements**— In December 2011, the FASB issued amended guidance which will enhance disclosures required under U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. As the amendments are limited to disclosure only, the adoption of this guidance is not expected to have a material impact on the financial statements.

# Financial Statements of AP Alternative Assets, L.P.

## 3. INVESTMENTS IN LIMITED PARTNER INTERESTS OF THE INVESTMENT PARTNERSHIP

At December 31, 2012 and 2011, AAA's only investment consisted of a limited partner interest in the Investment Partnership. AAA makes all of its investments through the Investment Partnership, and it is expected that AAA's only substantial assets will be limited partner interests in the Investment Partnership. Although investments made with AAA's capital by the Investment Partnership do not appear as investments in AAA's financial statements, AAA is the primary beneficiary of such investments and bears substantially all of the risk of loss.

From time to time, the Investment Partnership makes distributions to or on behalf of AAA to assist AAA in making cash distributions to its unitholders in accordance with AAA's distribution policy and to allow AAA to pay its operating expenses as they become due.

### *Fair Value Measurements*

In accordance with U.S. GAAP, the Partnership prioritizes and ranks the level of market price observability used in measuring its investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

*Level I*—Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level I include listed equities, securities and listed derivatives. AAA and the Investment Partnership do not adjust the quoted price for these investments, even in situations where Apollo holds a large position and a sale could reasonably impact the quoted price.

*Level II*—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

*Level III*—Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private equity, general and limited partner interests in private equity, credit or real estate funds, mezzanine funds, distressed debt, structured debt vehicles and non-investment grade residual interests in securitizations.

# Financial Statements of AP Alternative Assets, L.P.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. AAA's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following table summarizes the valuation of the Partnership's investments in fair value hierarchy levels:

<i>(in thousands)</i>	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
<b>As of December 31, 2012</b>				
Investment in AAA Investments, L.P.	<u>\$ 1,666,448</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,666,448</u>
<b>As of December 31, 2011</b>				
Investment in AAA Investments, L.P.	<u>\$ 1,480,152</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,480,152</u>

As of December 31, 2012 and 2011, the Partnership's Level III investment is valued based on the Net Asset Value of the Investment Partnership (which in turn is based on the Investment Partnership's underlying investments which are valued based on market quotes, broker quotes and the enterprise values at which the company believes it could be sold or transferred in an orderly transaction between market participants as of the measurement date. A market multiple approach that considers a specific financial measure, a discounted cash flow approach, an option valuation methodology or a liquidation analysis is generally used).

The change in the investment measured at fair value for which the Partnership has used Level III inputs to determine fair value is as follows:

<i>(in thousands)</i>	<u>For the Year Ended December 31, 2012</u>	<u>For the Year Ended December 31, 2011</u>
Beginning Balance	\$ 1,480,152	\$ 1,637,091
Purchases	—	432
Distributions	(101,844)	(33,425)
Unrealized gains (losses)	288,140	(123,946)
Ending Balance	<u>\$ 1,666,448</u>	<u>\$ 1,480,152</u>

As of December 31, 2012 and 2011, AAA had unrealized gains (losses) on Level III investments of \$105.3 million and \$(182.8) million, respectively. There were no transfers between Level I and II during the years ended December 31, 2012 and 2011.

## 4. CAPITAL TRANSACTIONS

At December 31, 2012 and 2011, AAA had 80,215,738 and 90,183,200, respectively, net common units outstanding, inclusive of 135,167 of common units held in treasury.

# Financial Statements of AP Alternative Assets, L.P.

On April 20, 2012, AAA commenced a tender offer (the “April Tender Offer”) to purchase a portion of its outstanding units at prices ranging from \$9.00 to \$10.50 per unit. In accordance with the terms of the April Tender Offer and under a prior mandate of the board of directors of AAA Guernsey Limited, AAA purchased 4,967,462 common units and restricted depositary units (“RDUs”) (together “Units”) at \$10.00 per unit for total consideration of \$49.7 million (\$49.8 million inclusive of expenses). The Investment Partnership made a distribution to AAA for the amount of the April Tender Offer and expects to make distributions to cover any related expenses. The Units acquired in the April Tender Offer were cancelled.

On February 10, 2012, AAA commenced a tender offer (the “February Tender Offer”) to purchase a portion of its outstanding units at prices ranging from \$9.20 to \$10.70 per unit. In accordance with the terms of the February Tender Offer and under a prior mandate of the board of directors of AAA Guernsey Limited, AAA purchased 5,000,000 Units at \$10.00 per unit for total consideration of \$50.0 million (\$50.3 million inclusive of expenses). The Investment Partnership made a distribution to AAA for the amount of the February Tender Offer and expects to make distributions to cover any related expenses. The Units acquired in the February Tender Offer were cancelled.

On December 10, 2012, AAA announced that it will extend a cash tender offer for up to \$100.0 million which was originally launched on November 12, 2012 (the “November Tender Offer”). AAA will repurchase up to 6,666,666 of its outstanding units at a price between \$15.00 and \$16.00 per unit. In order to assist unitholders in making an informed decision as to whether or not to tender their units, AAA has provided unitholders with additional information relating to Athene and subsequently on February 6, 2013, the offer period relating to the Tender Offer was extended until February 27, 2013.

Apollo Alternative Assets intends to continue monitoring the trading performance of AAA in the market and may, from time to time, seek to purchase units either directly or through one or more affiliates, when regulatory and market conditions permit.

In addition, under the services agreement, Apollo may require its affiliates to acquire additional common units of AAA on a quarterly basis in an amount equal to 25% of the aggregate after-tax cash distributions, if any, that are made to AAA and its affiliates pursuant to the carried interests and incentive distribution rights that are applicable to investments that are made through the Investment Partnership. In 2011, the Board of Directors of the Managing General Partner agreed with Apollo Alternative Assets to amend and restate the services agreement. The amendments require Apollo Alternative Assets (or its affiliates) to purchase common units or restricted depositary units in the market rather than subscribing for and being issued new common units or restricted depositary units when making a reinvestment of a portion of its carried interests from AAA. Apollo shall not be required to make these market purchases in any quarter where the amount of allocable carried interest to be reinvested is de minimis, and in such event the allocable carried interest will be rolled forward to subsequent quarters until such time as it is of a sufficient size to be used to acquire common units. In addition Apollo shall not be obliged to make acquisitions of units or restricted depositary units in a particular quarter where the market price

# Financial Statements of AP Alternative Assets, L.P.

has increased above a pre-defined threshold. In such circumstances the allocable carried interest shall again be rolled over to the subsequent quarter. This is being done to reduce the risk of market manipulation of the unit price. Where Apollo has been unable to invest its allocable carried interest in three consecutive quarters or open window periods, whichever is longer, it shall be obliged to invest the relevant allocable carried interest by way of a subscription for new units or restricted depositary units on the same basis as done prior to this amendment or (at its option) purchase in the market at whatever price is available. No lock-up shall be imposed on the units or restricted depositary units acquired by Apollo pursuant to the above arrangement as such a lock-up would have the effect of reducing liquidity of the units and restricted depositary units.

In July 2011 and April 2011, AAA issued 10,076 common units and 24,482 common units, respectively, in the form of restricted depositary units, to AAA Holdings, L.P. (“AAA Holdings”), an affiliate of Apollo, at a price per unit of \$12.31 and \$12.56, respectively. The units issued were subscribed for by AAA Holdings in fulfillment of Apollo’s obligation to reinvest a portion of the carried interests received by it in respect of investments made by the Investment Partnership as set forth in its prospectus. Common units issued directly to AAA’s affiliates in connection with the carried interest reinvestment program are subject to a general prohibition on transfer for a period of three years from the date of issuance. During the second quarter of 2012, to comply with the amended and restated services agreement which was approved by the boards of directors of the Managing General Partner in November 2011, affiliates of Apollo Alternative Assets reinvested a portion of the carried interests received in common units of AAA that were acquired in the market. AAA Holdings acquired 143,300 units at an average purchase price of \$10.13 per unit. No lock-up is imposed on the acquired units.

AAA has established a restricted deposit facility for a portion of its common units pursuant to which common units are deposited with a depository bank in exchange for restricted depositary units that are evidenced by restricted depositary receipts, subject to compliance with applicable ownership and transfer restrictions. The restricted depositary units have not been listed on any securities exchange.

During the year ended December 31, 2012, the Investment Partnership made partners’ capital distributions of \$101.8 million to or on behalf of AAA, of which \$99.7 related to the February and April Tender Offers and \$2.1 million was deemed to be distributed for tax withholdings on dividends received. These distributions were paid by the Investment Partnership and are included as a non-cash financing activity on the Partnership’s Statement of Cash Flows.

During the year ended December 31, 2011, the Investment Partnership made partners’ capital distributions of \$33.4 million to or on behalf of AAA, primarily related to AAA’s cash distributions to unitholders, tax withholdings on dividends received and payment of operating expenses. On June 22, 2011, AAA paid a distribution of \$0.31 per unit, or \$28.0 million in aggregate, to unitholders of record immediately after the close of business of June 10, 2011. In addition, during 2011, AAA is deemed to have made distributions of \$3.2 million to its unitholders for tax withholdings on dividends received.

# Financial Statements of AP Alternative Assets, L.P.

## 5. RELATIONSHIP WITH APOLLO AND RELATED PARTY TRANSACTIONS

Subject to the supervision of the board of directors of the Managing General Partner and the board of directors of the Managing Investment Partner, Apollo, through a services agreement with Apollo Alternative Assets, is responsible for selecting, evaluating, structuring, performing due diligence, negotiating, executing, monitoring and exiting the investments of AAA, as well as investments of the Investment Partnership and for managing the uninvested cash of the Investment Partnership. These investment activities are carried out by Apollo's investment professionals and Apollo's investment committee pursuant to the services agreement or under the investment management agreements between Apollo and its private equity funds. As the service provider, Apollo Alternative Assets' involvement in the investments of the Investment Partnership relate primarily to investments in Apollo-sponsored credit funds, direct co-investments in portfolio companies of Apollo-sponsored private equity funds, other investments including an opportunistic investment in an entity formed by Apollo, and cash management activities. Apollo, and/or its affiliates, also receive directly from portfolio companies in which the Investment Partnership has direct or indirect investments, transaction, management and other fees related to services provided in connection with acquisitions of such portfolio companies and ongoing management services rendered to such portfolio companies.

*Services Agreement and Management Fee*—AAA, the Managing General Partner, the Investment Partnership, its General Partner, and the Managing Investment Partner have entered into a services agreement with Apollo Alternative Assets pursuant to which Apollo Alternative Assets has agreed to provide certain investment, financial advisory, operational and other services to them. Under the services agreement, Apollo Alternative Assets is responsible for the day-to-day operations of the service recipients and is subject at all times to the supervision of their respective governing bodies, including the board of directors of the Managing General Partner and the board of directors of the Managing Investment Partner.

The services agreement was amended on October 31, 2012 as a result of the Transaction. Under the original services agreement, AAA, the Investment Partnership and the other service recipients have jointly and severally agreed to pay Apollo Alternative Assets a quarterly management fee, payable in arrears. The amendment related to the quarterly management fee that will be paid until December 31, 2014 (but services will continue until December 31, 2020 for the purposes of the unwind fee as described below), calculated and paid by AAA in arrears, in an aggregate amount equal to one-fourth of (i) all Adjusted Assets up to and including \$3.0 billion multiplied by 1.25% plus (ii) all Adjusted Assets in excess of \$3.0 billion multiplied by 1.0%. In the event that AAA makes a tender offer for all or substantially all of its units where the consideration is to be paid in Athene shares (or an alternative transaction that is no less favorable, in all material respects to the AAA unitholders as a whole), the management fee will be unwound and a lump sum payment will be made to Apollo equal to the remaining management fee that would have been due until the expiration date (December 31, 2020), using an 8% discount rate and assuming a 14% growth rate to then existing management fees, compounded annually, until the expiration date, subject to a cap of \$30.0 million if the realization event commences in 2013, \$25.0 million if the realization event commences in 2014, \$20.0 million if the realization event commences in 2015

# Financial Statements of AP Alternative Assets, L.P.

and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash or Athene shares valued at the then fair market value (or an equivalent derivative). In addition, any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

The services agreement contains certain provisions requiring AAA to indemnify Apollo and its affiliates with respect to all claims, liabilities, losses, costs, expenses or damages arising from the services agreement or the services provided by Apollo Alternative Assets, except to the extent that such claims, liabilities, losses, costs, expenses or damages are finally determined by a court of competent jurisdiction to have resulted from the indemnified person's willful misconduct or gross negligence. The Investment Partnership has historically not incurred any liabilities as a result of these guarantees and does not expect to in the future. Accordingly, no liability has been recorded in the accompanying financial statements.

**Due to Affiliates**—Due to affiliates at December 31, 2012 and 2011 consisted of \$3.2 million and \$0.2 million, respectively, payable to the Investment Partnership for expense reimbursements.

**Personal Interests of Directors**—Certain directors of the Managing General Partner, the Managing Investment Partner and Apollo Alternative Assets GP Limited, the general partner of Apollo Alternative Assets, the manager of the Investment Partnership, participate in certain of the investments in which the Investment Partnership invests.

The following is a summary of the personal interests of the directors in such investments at fair value:

<i>(in thousands)</i>	As of December 31, 2012	As of December 31, 2011
Apollo Strategic Value Offshore Fund, Ltd.	N/A	\$ 327
AP Investment Europe Limited	N/A	1,624
Apollo Asia Opportunity Offshore Fund, Ltd.	N/A	5,146
Apollo European Principal Finance Fund, L.P.	N/A	4,074
Apollo Asia Private Credit Fund	N/A	–
Apollo Investment Fund VI, L.P.	\$75,157	73,778
Apollo Investment Fund VII, L.P.	N/A	58,704

In addition, certain directors of the Managing General Partner, the Managing Investment Partner and Apollo Alternative Assets GP Limited are AAA unitholders. At December 31, 2012 and 2011, the directors owned approximately 2.3 million and 2.3 million units of AAA, respectively. This excludes 2.3 million and 2.2 million units owned by an affiliate of Apollo, which certain directors are deemed to beneficially own at December 31, 2012 and 2011, respectively.

# Financial Statements of AP Alternative Assets, L.P.

## 6. FINANCIAL HIGHLIGHTS

Financial highlights for AAA were as follows:

<i>(in thousands, except per unit amounts)</i>	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
<b>Per unit operating performance:</b>		
Net asset value at the beginning of the year	\$ 16.41	\$ 18.16
<b>Income (loss) from investment operations:</b>		
Net investment (loss) income	(0.14)	0.02
Net gain (loss) from investments	3.57	(1.42)
<b>Total from investment operations</b>	<b>3.43</b>	<b>(1.40)</b>
<b>Capital distributions</b>	<b>(0.03)</b>	<b>(0.35)</b>
<b>Unit purchases</b>	<b>(1.20)</b>	<b>—</b>
<b>Accretion from unit repurchases/effect of dilution</b>	<b>2.12</b>	<b>—</b>
<b>Net asset value at end of the year</b>	<b>\$ 20.73</b>	<b>\$ 16.41</b>
<b>Total return</b>	<b>20.08%</b>	<b>(8.03)%</b>
<b>Percentage and supplemental data:</b>		
Net assets at the end of the year	\$ 1,662,869	\$ 1,479,523
<b>Ratios to average net assets:</b>		
Expenses	2.70%	2.18%
Investment (loss) income	(0.79)%	0.08%

These financial highlights have been calculated using a methodology in accordance with U.S. GAAP. The total return and ratios to average net assets have been presented on an annualized basis and were calculated on a weighted average basis.

AAA's turnover ratios for the years ended December 31, 2012 and 2011 were (2)% and 15%, respectively.

## 7. COMMITMENTS AND CONTINGENCIES

AAA may, from time to time, be party to various legal actions arising in the ordinary course of business including claims and litigations, reviews, investigations or proceedings by governmental and self regulatory agencies regarding their respective businesses. It is the opinion of the Managing General Partner and Managing Investment Partner, after consultation with counsel, there are presently no existing matters that would result in a material adverse effect on the financial condition of the Partnership.

# Financial Statements of AP Alternative Assets, L.P.

As of December 31, 2012, AAA had no outstanding commitments for future funding.

## **8. SUBSEQUENT EVENTS**

During January and February 2013, under its existing agreements, Athene Holdings called approximately \$82.1 million in capital from other investors. As a result, AAA's ownership in Athene was diluted by approximately \$43.1 million from approximately 77% to approximately 72% and the other investors' ownership increased from approximately 23% to approximately 28%.

On February 6, 2013, AAA announced that its tender offer which was originally launched on November 12, 2012 and subsequently extended on December 10, 2012, will now expire on February 27, 2013.

# Financial Statements of AP Alternative Assets, L.P.

## 9. SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED)

### Quarterly Results

The following represents the Partnership's unaudited quarterly results for the years ended December 31, 2012 and 2011. These quarterly results were prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of the Managing General Partner, necessary for a fair statement of the results:

<i>(in thousands)</i>	For the Three Months Ended March 31, 2012	For the Three Months Ended June 30, 2012	For the Three Months Ended September 30, 2012	For the Three Months Ended December 31, 2012
Investment income	\$ 10,178	\$ 11,027	\$ 4,120	\$ 3,600
Investment expense	(9,388)	(9,800)	(11,748)	(7,375)
General and administrative expenses	(656)	(678)	(673)	(571)
Net investment (loss) income	134	549	(8,301)	(4,346)
Net realized gains (losses) from sales	13,964	25,731	(171,440)	178,247
Net change in unrealized depreciation / appreciation on investments	138,938	(42,108)	197,020	(42,826)
Net increase (decrease) in net assets resulting from operations	<u>\$ 153,036</u>	<u>\$ (15,828)</u>	<u>\$ 17,279</u>	<u>\$ 131,075</u>

<i>(in thousands)</i>	For the Three Months Ended March 31, 2011	For the Three Months Ended June 30, 2011	For the Three Months Ended September 30, 2011	For the Three Months Ended December 31, 2011
Investment income	\$ 4,777	\$ 8,424	\$ 10,102	\$ 14,833
Investment expense	(8,117)	(8,112)	(7,393)	(10,634)
General and administrative expenses	(626)	(591)	(586)	(746)
Net investment (loss) income	(3,966)	(279)	2,123	3,453
Net realized gains (losses) from sales	22,060	290	(425)	1,023
Net change in unrealized depreciation / appreciation on investments	121,380	60,477	(339,335)	6,704
Net increase (decrease) in net assets resulting from operations	<u>\$ 139,474</u>	<u>\$ 60,488</u>	<u>\$ (337,637)</u>	<u>\$ 11,180</u>

# Financial Statements of AAA Investments, L.P.

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## Index to Financial Statements

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	<b>PAGE</b>
Independent Auditors' Report .....	F-23
Statement of Assets and Liabilities as of December 31, 2012 and 2011 .....	F-25
Schedule of Investments as of December 31, 2012 and 2011 .....	F-26
Statement of Operations for the years ended December 31, 2012 and 2011 .....	F-28
Statement of Changes in Net Assets for the years ended December 31, 2012 and 2011 .....	F-29
Statement of Cash Flows for the years ended December 31, 2012 and 2011 .....	F-30
Notes to Financial Statements.....	F-31

# Financial Statements of AAA Investments, L.P.

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## Independent Auditor's Report

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To the Board of Directors of the Managing Investment Partner and Common Unit Holders of  
AAA Investments, L.P.  
St. Peter Port, Guernsey

We have audited the accompanying financial statements of AAA Investments, L.P. (the "Investment Partnership"), which comprise the statement of assets and liabilities, including the schedule of investments, as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Managing Investment Partner's Responsibility for the Financial Statements

The Managing Investment Partner's is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the Investment Partnership's preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Investment Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Investment Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Managing Investment Partner, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Financial Statements of AAA Investments, L.P.

## Opinion

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of AAA Investments, L.P. as of December 31, 2012 and 2011, the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of matter – Fair Value of Investments

As discussed in Notes 2 and 3 to AAA Investments, L.P.'s financial statements, the financial statements include investments valued at \$1,582.0 million (90.9% of total assets) as of December 31, 2012, and \$1,590.3 million (83.1% of total assets) as of December 31, 2011, whose fair values have been estimated by the General Partner in the absence of readily determinable fair values. Due to the inherent uncertainty of the valuations, the estimated values may differ materially from the values that would have been realised had a disposal of the investments been made between a willing buyer and seller.

Deloitte LLP  
Chartered Accountants  
St. Peter Port, Guernsey  
February 7, 2013

# Financial Statements of AAA Investments, L.P.

<b>AAA INVESTMENTS, L.P.</b>		
<b>STATEMENT OF ASSETS AND LIABILITIES</b>		
<b>(in thousands)</b>		
	As of December 31, 2012	As of December 31, 2011
<b>ASSETS</b>		
Investments:		
Investment in Opportunistic Investment at fair value (cost of \$1,276,366 in 2012 and \$358,241 in 2011)	\$ 1,578,954	\$ 430,800
Co-investments – Apollo Investment Fund VI and Apollo Investment Fund VII at fair value (cost of \$177,153 in 2012 and \$1,026,471 in 2011)	25,050	903,745
Investment in Apollo Strategic Value Offshore Fund, Ltd. at fair value (cost of \$0 in 2012 and \$105,889 in 2011)	—	164,811
Investment in Other Apollo Credit Funds at fair value (cost of \$0 in 2012 and \$332,776 in 2011)	—	166,959
Investment in Other Opportunistic Investment at fair value (cost of \$0 in 2012 and \$12,953 in 2011)	—	12,214
<b>Total Investments</b>	<b>1,604,004</b>	<b>1,678,529</b>
Cash and cash equivalents	18,661	229,892
Note receivable from affiliate	113,264	—
Other assets	354	2,349
Due from affiliates	3,224	3,002
<b>TOTAL ASSETS</b>	<b>1,739,507</b>	<b>1,913,772</b>
<b>LIABILITIES</b>		
Borrowings under credit facility	—	402,500
Accounts payable and accrued liabilities	1,268	1,228
Due to affiliates	1,830	6,944
<b>NET ASSETS</b>	<b>\$ 1,736,409</b>	<b>\$ 1,503,100</b>
<b>NET ASSETS CONSIST OF</b>		
Partners' capital	\$ 1,539,673	\$ 1,651,794
Accumulated increase (decrease) in net assets resulting from operations	196,736	(148,694)
	<b>\$ 1,736,409</b>	<b>\$ 1,503,100</b>
See accompanying notes to financial statements.		

# Financial Statements of AAA Investments, L.P.

<b>AAA INVESTMENTS, L.P.</b>			
<b>SCHEDULE OF INVESTMENTS</b>			
<b>(in thousands)</b>			
	Cost	Fair Value	Fair Value as a Percentage of Net Assets
<b>As of December 31, 2012:</b>			
Opportunistic Investment – Apollo Life Re Ltd.	\$ 1,276,366	\$ 1,578,954	90.9%
Co-investments in Apollo Investment Fund VI portfolio companies:	177,153	25,050	1.5%
<b>Total Investments</b>	<b>\$ 1,453,519</b>	<b>\$ 1,604,004</b>	<b>92.4%</b>
<b>As of December 31, 2011:</b>			
Co-investments in Apollo Investment Fund VI and Apollo Investment Fund VII portfolio companies:			
Rexnord Corporation	\$ 37,461	\$ 139,100	9.3%
LeverageSource, L.P.	139,913	102,834	6.8%
Momentive Performance Materials Holdings Inc. <sup>(1)</sup>	80,657	85,300	5.7%
All others <sup>(2)</sup>	768,440	576,511	38.3%
	1,026,471	903,745	60.1%
Apollo Strategic Value Offshore Fund, Ltd. <sup>(3)</sup>	105,889	164,811	11.0%
Apollo Asia Opportunity Offshore Fund, Ltd.	88,166	86,329	5.7%
Other Apollo Credit Funds	244,610	80,630	5.4%
Opportunistic Investment - Apollo Life Re Ltd.	358,241	430,800	28.7%
Other Opportunistic Investment	12,953	12,214	0.8%
<b>Total Investments</b>	<b>\$ 1,836,330</b>	<b>\$ 1,678,529</b>	<b>111.7%</b>
See accompanying notes to financial statements.			

- (1) In addition to the Investment Partnership's private equity co-investment in Momentive Performance Materials Holdings Inc. ("Momentive") noted above, the Investment Partnership has an ownership interest in the debt of Momentive. At December 31, 2011, the Investment Partnership's combined share of these debt and equity investments is greater than 5% of the Investment Partnership's net asset value and is valued at \$85.9 million.
- (2) The Investment Partnership owns equity, as a private equity co-investment and converted from debt positions, and debt, through its investments in Autumnleaf, L.P. and Apollo Fund VI BC, L.P. in CEVA Logistics. The Investment Partnership's combined share of these debt and equity investments is greater than 5% of the Investment Partnership's net asset value and is valued at \$75.2 million at December 31, 2011.
- (3) Apollo Strategic Value Offshore Fund has an ownership interest in a special purpose vehicle, Apollo VIF/SVF Bradco LLC, which owns interests in Bradco Supply Corporation. The Investment Partnership's share of this investment is greater than 5% of the Investment Partnership's net asset value and is valued at \$80.9 million at December 31, 2011.

# Financial Statements of AAA Investments, L.P.

## AAA INVESTMENTS, L.P. SCHEDULE OF INVESTMENTS (continued) (in thousands)

	Cost	Fair Value	Fair Value as a Percentage of Net Assets
<b>As of December 31, 2012:</b>			
<b>Investments by Geography:</b>			
North America	\$ 1,453,095	\$ 1,600,982	92.2%
Europe	424	3,022	0.2%
	<u>\$ 1,453,519</u>	<u>\$ 1,604,004</u>	<u>92.4%</u>
<b>Investments by Industry:</b>			
Financial & Business Services	\$ 1,276,790	\$ 1,581,975	91.1%
Media, Cable & Leisure	176,729	22,029	1.3%
	<u>\$ 1,453,519</u>	<u>\$ 1,604,004</u>	<u>92.4%</u>
<b>As of December 31, 2011:</b>			
<b>Investments by Geography:</b>			
North America	\$ 1,473,003	\$ 1,481,285	98.5%
Europe	275,161	110,915	7.4%
Asia Pacific	88,166	86,329	5.8%
	<u>\$ 1,836,330</u>	<u>\$ 1,678,529</u>	<u>111.7%</u>
<b>Investments by Industry:</b>			
Financial & Business Services	\$ 489,754	\$ 441,796	29.4%
Affiliated Fund	438,666	331,770	22.1%
Media, Cable & Leisure	388,504	214,441	14.3%
Consumer & Retail	120,944	150,300	10.0%
Manufacturing & Industrial	39,599	141,000	9.4%
Packaging & Materials	21,799	91,151	6.0%
Chemicals	80,657	85,300	5.7%
Distribution & Transportation	17,885	16,575	1.1%
Other	238,522	206,196	13.7%
	<u>\$ 1,836,330</u>	<u>\$ 1,678,529</u>	<u>111.7%</u>
See accompanying notes to financial statements.			

# Financial Statements of AAA Investments, L.P.

<b>AAA INVESTMENTS, L.P.</b>		
<b>STATEMENT OF OPERATIONS</b>		
<b>(in thousands)</b>		
	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
<b>INVESTMENT INCOME:</b>		
Interest, dividends and gains from short-term investments	\$ 28,941	\$ 38,157
<b>EXPENSES:</b>		
Management fees	(13,689)	(17,745)
General and administrative expenses	(24,636)	(16,520)
<b>NET INVESTMENT (LOSS) INCOME</b>	<b>(9,384)</b>	<b>3,892</b>
<b>REALIZED AND UNREALIZED GAINS (LOSSES) FROM INVESTMENTS</b>		
Net realized gains from sales/dispositions on investments	46,528	22,960
Net change in unrealized appreciation/depreciation on investments	308,286	(141,348)
<b>NET GAIN (LOSS) FROM INVESTMENTS</b>	<b>354,814</b>	<b>(118,388)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 345,430</b>	<b>\$ (114,496)</b>
See accompanying notes to financial statements.		

# Financial Statements of AAA Investments, L.P.

<b>AAA INVESTMENTS, L.P.</b>			
<b>STATEMENT OF CHANGES IN NET ASSETS</b>			
<b>(in thousands)</b>			
	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total</u>
<b>For the Year Ended December 31, 2011:</b>			
NET ASSETS — December 31, 2010	\$ 13,516	\$ 1,637,091	\$ 1,650,607
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:</b>			
Net investment income	12	3,880	3,892
Net gain (loss) from investments	9,438	(127,826)	(118,388)
Net increase (decrease) in net assets resulting from operations:	9,450	(123,946)	(114,496)
<b>NET DECREASE FROM CAPITAL TRANSACTIONS:</b>			
Partners' capital contributions	—	432	432
Partners' capital distributions	(18)	(33,425)	(33,443)
Net change from capital transactions	(18)	(32,993)	(33,011)
TOTAL INCREASE (DECREASE) IN NET ASSETS	9,432	(156,939)	(147,507)
NET ASSETS — December 31, 2011	\$ 22,948	\$ 1,480,152	\$ 1,503,100
<b>For the Year Ended December 31, 2012:</b>			
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS:</b>			
Net investment income (loss)	2	(9,386)	(9,384)
Net gain from investments	57,288	297,526	354,814
Net increase in net assets resulting from operations:	57,290	288,140	345,430
<b>NET DECREASE FROM CAPITAL TRANSACTIONS:</b>			
Partners' capital distributions	(10,277)	(101,844)	(112,121)
Net change from capital transactions	(10,277)	(101,844)	(112,121)
TOTAL INCREASE IN NET ASSETS	47,013	186,296	233,309
NET ASSETS — December 31, 2012	\$ 69,961	\$ 1,666,448	\$ 1,736,409
See accompanying notes to financial statements.			

# Financial Statements of AAA Investments, L.P.

<b>AAA INVESTMENTS, L.P.</b>		
<b>STATEMENT OF CASH FLOWS</b>		
<b>(in thousands)</b>		
	<u>For the Year Ended December 31, 2012</u>	<u>For the Year Ended December 31, 2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 345,430	\$ (114,496)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash flows provided by operating activities:		
Net change in unrealized appreciation/depreciation on investments	(308,286)	141,348
Net realized gains from sales/dispositions on investments	(46,528)	(22,960)
Changes in operating assets and liabilities:		
Proceeds from Athene Transaction	82,900	—
Investment in Other Apollo Credit Funds	(29,716)	(27,982)
Distributions/Proceeds from Other Apollo Credit Funds	98,475	139,017
Distributions from Strategic Value Offshore Fund, Ltd.	21,000	10,000
Investments in portfolio companies	(1,597)	(41,344)
Proceeds from portfolio companies	137,095	132,941
Investments in opportunistic investments	(2,349)	(270,250)
Proceeds from opportunistic investment	10,267	100,000
Decrease in other assets and due from affiliates	1,773	1,162
(Decrease) increase in accounts payable, accrued liabilities and due to affiliates	(5,074)	868
Net cash flows provided by operating activities	<u>303,390</u>	<u>48,304</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings from credit facility	—	2,000
Repayments of credit facility	(402,500)	(137,000)
Partners' capital distributions	(112,121)	(33,443)
Partners' capital contributions	—	432
Net cash flows used in financing activities	<u>(514,621)</u>	<u>(168,011)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(211,231)	(119,707)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>229,892</u>	<u>349,599</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 18,661</u>	<u>\$ 229,892</u>
Supplemental Disclosure of Cash Flow Information — Interest Paid	<u>\$ 14,221</u>	<u>\$ 8,742</u>
See accompanying notes to financial statements.		

# Financial Statements of AAA Investments, L.P.

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## Notes to Financial Statements

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### 1. BUSINESS

AAA Investments, L.P. (the “Investment Partnership”) is a Guernsey limited partnership that is comprised of (i) AAA Associates, L.P. (the “General Partner”), which holds 100% of the General Partner interests in the Investment Partnership and is responsible for managing its business and affairs, and (ii) AP Alternative Assets, L.P. (“AAA” or the “Partnership”), which holds 100% of the limited partner interests in the Investment Partnership and does not participate in the management of the business and affairs of the Investment Partnership. Because the General Partner is itself a Guernsey limited partnership, its general partner, AAA MIP Limited (the “Managing Investment Partner”), a Guernsey limited company that is owned 55% by an individual who is not an affiliate of Apollo Global Management, LLC and its subsidiaries (collectively “Apollo”), and 45% by Apollo Principal Holdings III, L.P., an affiliate of Apollo, effectively is responsible for managing the Investment Partnership’s business and affairs.

The Investment Partnership is the partnership through which AAA and the General Partner make investments. These investments include investments in Apollo-sponsored entities, funds and private equity transactions. Capital is deployed primarily through an opportunistic investment sponsored by Apollo, Apollo Life Re Ltd. Apollo Life Re Ltd. is an Apollo-sponsored vehicle that owns the majority of the equity of Athene Holding Ltd. (“Athene”), the parent of Athene Life Re Ltd., a Bermuda-based reinsurance company focused on the life reinsurance sector, Athene Annuity & Life Assurance Company (formerly Liberty Life Insurance Company), a Delaware-domiciled stock life insurance company focused on retail sales and reinsurance in the retirement services market, Investor Insurance Corporation, a Delaware-domiciled stock life insurance company focused on the retirement services market and Athene Life Insurance Company, an Indiana-domiciled stock life insurance company focused on the institutional GIC-backed note and funding agreement markets. The Investment Partnership’s limited partnership agreement provides that the investments made by the Investment Partnership must comply with the investment policies and procedures that are established from time to time by the board of directors of AAA’s general partner, AAA Guernsey Limited (the “Managing General Partner”).

On October 31, 2012 the Investment Partnership closed on an agreement to contribute substantially all of its investments to Athene in exchange for common shares of Athene, cash and a short term promissory note (the “Transaction”). The Investment Partnership received approximately 46.8 million non-voting common shares of Athene, cash of \$82.9 million and a promissory note with a principal amount of approximately \$113.3 million in exchange of investments with a fair value of approximately \$1,114.3 million. The promissory note will bear interest at a rate of 0.30% per annum, is payable upon demand by the Investment Partnership and Athene may prepay at its option at any time, without penalty. At December 31, 2012, there are an additional 1.5 million shares that will be issued by Athene in exchange for Investment Partnership investments that are pending the receipt of required regulatory consents. The impact of the Transaction resulted in a realized gain of approximately \$178.3 million (or \$2.22 per unit)

# Financial Statements of AAA Investments, L.P.

as of December 31, 2012. In addition, the impact of the transaction resulted in a dilution of approximately \$63.6 million in the Investment Partnership's interest in Athene and an increase of approximately \$22.1 million of additional allocation to the General Partner at December 31, 2012.

Simultaneously with the approval of the Transaction, the Board approved the removal of the diversification requirements within the Investment Partnership's Investment Policies and Procedures (having received the requisite approval of the independent directors) in order for the Investment Partnership to have Athene as its only investment.

In connection with the Transaction, AAA announced on December 10, 2012 that it will extend a cash tender offer for up to \$100.0 million which was originally launched on November 12, 2012 (the "November Tender Offer"). AAA will repurchase up to 6,666,666 of its outstanding units at a price between \$15.00 and \$16.00 per unit. In order to assist unitholders in making an informed decision as to whether or not to tender their units, AAA has provided unitholders with additional information relating to Athene and subsequently on February 6, 2013, the offer period relating to the Tender Offer was extended until February 27, 2013.

After the Transaction, Athene is the Investment Partnership's only material investment and the Investment Partnership will remain the largest shareholder of Athene with an approximate 77% ownership stake (based on capital invested to date). Athene has the ability to call capital from remaining commitments and this could dilute AAA's ownership stake. There will be no management fees payable with respect to the newly acquired Athene shares by the Investment Partnership in the Transaction, which are those shares in excess of the Athene shares the Investment Partnership currently owns or has committed to purchase of approximately 3.8 million at \$11.16 per share pursuant to a pre-existing capital commitment (the "Excluded Shares"). Likewise, affiliates of the Manager will not be entitled to receive any carried interest in respect of the Excluded Shares. The Investment Partnership will continue to pay to the Manager the same management fee on the Investment Partnership's investment in Athene (other than the Excluded Shares), except that the Manager has agreed that the Investment Partnership's obligation to pay the existing management fee shall terminate on December 31, 2014. The Manager has agreed to receive a formulaic unwind of its management fee up to a cap of \$30.0 million if a realization event commences in 2013, \$25.0 million if a realization event commences in 2014, \$20.0 million if a realization event commences in 2015 and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash or Athene shares valued at the then fair market value (or an equivalent derivative). Any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

# Financial Statements of AAA Investments, L.P.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and are presented in U.S. dollars. The Partnership and the Investment Partnership follow the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles in the preparation of financial statements in conformity with U.S. GAAP.

The financial statements include the financial statements of the Investment Partnership and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Investment Partnership utilizes the U.S. dollar as its functional currency. Management has evaluated all subsequent events or transactions for potential recognition or disclosure through February 7, 2013, the issuance date of these financial statements.

The Investment Partnership utilizes an annual reporting schedule comprised of four three-month quarters with an annual accounting period ending on December 31. The quarterly periods end on March 31, June 30, September 30 and December 31. The financial results presented herein include the Investment Partnership’s activity for the year ended December 31, 2012 and 2011, and its financial position as of December 31, 2012 and 2011.

The preparation of financial statements in conformity with U.S. GAAP requires the making of certain estimates and assumptions that could materially affect the amounts reported in the financial statements and related notes. Actual results could differ materially from these estimates.

The Managing Investment Partner has reviewed the current cash balance of the Investment Partnership and its future obligations and expects the Investment Partnership to continue as a going concern for at least the next year. As also detailed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” included elsewhere within this report, this assessment is based on historic and predicted timing of capital calls for the Investment Partnership’s unfunded commitments, its expected operating expenses, present sources of liquidity, its borrowing facilities and the ability to raise cash through sales of investments and other activities.

Significant accounting policies are those policies that are the most important to the financial statements and/or those that require significant management judgment related to matters that are uncertain. The following valuation policies are considered critical accounting policies due to the judgment and significance involved in their applications. The development and selection of these policies and their related disclosure have been reviewed by the board of directors of the Managing General Partner and the board of directors of the Managing Investment Partner.

**Valuation of Investments**—The investments carried as assets in the Investment Partnership’s financial statements are recorded at fair value. The Managing General Partner’s board of directors is responsible for reviewing and approving valuations of investments that are carried as

# Financial Statements of AAA Investments, L.P.

assets in the Investment Partnership's financial statements. Because valuing investments requires the application of valuation principles to the specific facts and circumstances of the investments, in satisfying its responsibilities, the Managing General Partner's board of directors utilizes the services of Apollo Alternative Assets, who makes calculations as to investment value, and the services of independent valuation firms, who performs certain agreed upon procedures with respect to valuations that are prepared by Apollo Alternative Assets to confirm that such valuations are reasonable at each reporting date. An investment for which a market quotation is readily available is valued using the market price or the quoted price from an active market which is either directly or indirectly observable for the investment as of the end of the applicable accounting period. An investment for which a market quotation is not readily available is valued at the investment's fair value as of the end of the applicable accounting period as determined by the Managing General Partner's board of directors in good faith.

The Investment Manager utilizes a valuation committee consisting of members from senior management that review and approve the valuation results related to our direct private equity co-investments, opportunistic investments and the underlying investments in the credit funds. The Investment Manager also retains independent valuation firms to provide third-party valuation consulting services, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating the Investment Partnership's valuation.

Due to the inherent uncertainty of the valuation, the estimated value may differ materially from the value that would have been realized had a disposal of the investments been made between a willing buyer and seller. Additionally, widespread economic uncertainty, slowing capital and consumer spending, indeterminate credit markets and volatile equity returns could have effects on the fair values of investments in the future periods. As part of the valuation process, the Managing Investment Partner considers whether any investments are permanently impaired. The impact of a permanent impairment is the realization of the loss from unrealized depreciation on investments. There were no impairments recorded during the years ended December 31, 2012 and 2011.

*Values of Interests in Apollo-Sponsored Private Equity and Credit Funds*—The Investment Partnership's interests in Apollo-sponsored private equity funds or its credit funds do not have a readily available market value and generally are valued using fair value pricing. Each interest is generally valued at an amount that is equal to the aggregate unrealized value of the fund's portfolio company investments that the holder of the interest would receive if such investments were sold or transferred in an orderly transaction between market participants as of the measurement date, and the distribution of the net proceeds from such sales were distributed to investors in accordance with the documentation governing the fund. The Investment Partnership may be required to value such investments at a premium or discount to net asset value if other factors lead the Managing General Partner's board of directors to conclude that net asset value does not represent fair value. Each fund's net asset value is expected to increase or decrease from time to time based on the amount of investment income, operating expenses and realized gains and losses on the sale or repayment of investments, if any, that the fund records and the net

# Financial Statements of AAA Investments, L.P.

changes in the appreciation and depreciation of the investments that it carries as assets in its financial statements.

**Values of Co-Investments in Portfolio Companies of Apollo-Sponsored Private Equity Funds and Opportunistic Investments**—Depending on the circumstances, the Investment Partnership's co-investments in portfolio companies of Apollo-sponsored private equity funds and equity investments that are made in other companies as investments may be publicly traded, in which case the investments are valued using period-end quoted market prices, or non-publicly traded, in which case the investments are valued at their fair value as estimated in good faith. When market prices are used, they do not necessarily take into account various factors which may affect the value that would actually be able to be realized in the future, such as the possible illiquidity associated with a larger ownership position, subsequent illiquidity in a market for a company's securities, future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance.

When determining fair value pricing when no market value exists, the value attributed to an investment is based on the enterprise value at which the company could be sold or transferred in an orderly transaction between market participants as of a measurement date. A market multiple approach that considers a specific financial measure (such as earnings before interest, taxes, depreciation and amortization "EBITDA", adjusted EBITDA, cash flow, net income, revenues or net asset value), a discounted cash flow approach, an option valuation methodology or a liquidation analysis is generally used. Consideration may also be given to such factors as the company's historical and projected financial data, valuations given to comparable companies, the size and scope of the company's operations, the company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the company's securities, the size of Apollo's holding in the portfolio company and any control associated with interests in the company that is held by Apollo and its affiliates, including the Investment Partnership, information with respect to transactions or offers for the portfolio company's securities (including the transaction pursuant to which the investment was made and the period of time that has elapsed from the date of the investment to the valuation date), applicable restrictions on transfer, industry information and assumptions, general economic and market conditions and other factors deemed relevant.

**Value of Temporary Investments**—The investments that the Investment Partnership will carry as assets in its financial statements are expected to include investments that constitute temporary investments. These are generally cash and cash equivalents. In addition, from time to time this cash is expected to be paid out in the form of distributions and dividends on equity investments, payments of interest and principal on fixed income investments and cash consideration received in connection with the disposal of investments. Temporary investments will be valued using readily available market prices.

**Fair Value of Financial Instruments**—U.S. GAAP requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a

# Financial Statements of AAA Investments, L.P.

forced or liquidation sale. The Investment Partnership's financial instruments are recorded at fair value or at amounts whose carrying value approximates fair value. See the valuation policy for Investments above and Note 5 – Credit Facility.

**Foreign Currency**—The foreign currency denominated investments of the Investment Partnership are translated into U.S. dollar amounts at the date of the statement of assets and liabilities. Purchases and sales of foreign currency denominated investments are translated into U.S. dollars on the respective dates of such transactions. The Investment Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in value. Such fluctuations are included within the net realized gains from sales/dispositions and net change in unrealized appreciation/depreciation on investments in the statement of operations. At December 31, 2012, the foreign denominated investment on the books of the Investment Partnership is Countrywide Plc. At December 31, 2011 the foreign denominated investments on the books of the Investment Partnership are CEVA Logistics, Countrywide Plc, Apollo Investment Europe, Apollo European Principal Finance Fund, and GA Data Holdings Ltd. For the years ended December 31, 2012, and 2011, included in net change in unrealized appreciation/depreciation on investments is \$0.1 million and \$(3.5) million, respectively, related to exchange rate fluctuations on foreign denominated investments.

**Cash and Cash Equivalents**—Cash and cash equivalents consist of cash held in bank and liquid investments with maturities, at the date of acquisitions, not exceeding 90 days. Surplus cash may be invested in government securities, cash equivalents, money market instruments, asset-backed securities and other investment grade securities. At December 31, 2012 and 2011, all cash and cash equivalents were cash held at banks, which are considered to be Level I in the fair value hierarchy.

**Other Assets**—At December 31, 2012 and 2011, other assets were primarily comprised of interest receivable, debt financing costs and prepaid insurance. Prepaid insurance is amortized on a straight-line basis over the related policy periods. Debt financing costs were amortized over the life of the credit facility and written off upon repayment of the term loan on November 1, 2012.

**Capital**—Distributable earnings (losses) are allocated to AAA and the General Partner in accordance with the limited partnership agreement.

**Income Recognition**—The assets of the Investment Partnership generate investment income in the form of dividends and interest. Income is recognized when earned. The Investment Partnership also records income in the form of unrealized appreciation or depreciation of its investments, as well as from realized gains and losses on the sale of investments. Any new unrealized appreciation or depreciation in the value on investments is recorded as an increase or decrease in the unrealized appreciation or depreciation of investments. This occurs at the end of each month-end accounting period when investments are valued. See “Valuation of Investments,” above. Security transactions are accounted for on the trade date (the date the order

# Financial Statements of AAA Investments, L.P.

to buy or sell is executed). Realized gains and losses on sales of securities are determined on the identified costs basis.

**Expenses**—Expenses are recorded as incurred. Under a services agreement, the Investment Partnership, along with the service recipients have agreed to pay Apollo Alternative Assets a quarterly management fee and to pay expenses incurred by Apollo that are attributable to the Investment Partnership’s operations and reimbursable under the services agreement, See Note 6, “Relationship with Apollo and Related Party Transactions.”

**Taxes**—The Investment Partnership is not subject to income taxes in Guernsey and is taxable as a partnership for U.S. federal and state income tax purposes. As a partnership, the Investment Partnership is not a taxable entity and incurs no U.S. federal and state income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the Investment Partnership in computing its U.S. federal income tax liability. The Investment Partnership has filed U.S. federal and state tax returns for the 2011, 2010 and 2009 tax years. The tax years from 2009 to 2011 are subject to the possibility of an audit until the expiration of the applicable statute of limitations.

The Investment Partnership follows U.S. GAAP when accounting for the uncertainty in income taxes recognized in the financial statements. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

**Distribution Policy**—From time to time, the Investment Partnership makes distributions to or on behalf of AAA to allow AAA to pay its operating expenses as they become due, to assist AAA in making cash distributions to its unitholders in accordance with AAA’s distribution policy and to assist AAA in funding any other corporate needs, such as unit buyback programs.

**Recent Accounting Pronouncements**— In December 2011, the FASB issued amended guidance which will enhance disclosures required under U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. As the amendments are limited to disclosure only, the adoption of this guidance is not expected to have a material impact on the financial statements.

# Financial Statements of AAA Investments, L.P.

## 3. INVESTMENTS

Investments are valued as described above in Note 2, “Summary of Significant Accounting Policies – Valuation of Investments.”

### *Fair Value Measurements*

In accordance with U.S. GAAP, the Investment Partnership prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

*Level I*—Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level I include listed equities, securities and listed derivatives. The Investment Partnership does not adjust the quoted price for these investments, even in situations where Apollo holds a large position and a sale could reasonably impact the quoted price.

*Level II*—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

*Level III*—Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include private equity, general and limited partner interests in private equity, credit and real estate funds, mezzanine funds, distressed debt, structured debt vehicles and non-investment grade residual interests in securitizations.

# Financial Statements of AAA Investments, L.P.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Investment Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following table summarizes the valuation of the Investment Partnership's investments in fair value hierarchy levels as of December 31, 2012 and 2011:

<i>(in thousands)</i>				
<b>As of December 31, 2012</b>	<b>Total</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
Co-investments in certain portfolio companies	\$ 22,029	\$ 22,029	\$ —	\$ —
Cash and cash equivalents	18,661	18,661	—	—
Equity investments in partnerships and co-investments in certain portfolio companies	1,581,975	—	—	1,581,975
<b>Total</b>	<b>\$ 1,622,665</b>	<b>\$ 40,690</b>	<b>\$ —</b>	<b>\$ 1,581,975</b>
<b>As of December 31, 2011</b>				
Co-investments in certain portfolio companies and investment in Charter Communications, Inc.	\$ 88,211	\$ 80,783	\$ 7,428	\$ —
Cash and cash equivalents	229,892	229,892	—	—
Equity investments in partnerships and co-investments in certain portfolio companies	1,590,318	—	—	1,590,318
<b>Total</b>	<b>\$ 1,908,421</b>	<b>\$ 310,675</b>	<b>\$ 7,428</b>	<b>\$ 1,590,318</b>

# Financial Statements of AAA Investments, L.P.

The changes in investments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows:

<i>(in thousands)</i>	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
<b>Beginning Balance</b>	\$ 1,590,318	\$ 1,747,323
<b>Purchases</b>	951,599	336,450
<b>Sales and return of invested capital</b>	(1,143,717)	(290,433)
<b>Realized losses, net</b>	(124,581)	(33,710)
<b>Transfers into Level III <sup>(1)</sup></b>	5,732	1,945
<b>Transfers out of Level III <sup>(2)</sup></b>	(202,783)	(98,421)
<b>Unrealized gains (losses), net <sup>(3)</sup></b>	505,407	(72,836)
<b>Ending Balance <sup>(4)</sup></b>	<u>\$ 1,581,975</u>	<u>\$ 1,590,318</u>

There were no transfers between Level I and II during the years ended December 31, 2012 and 2011.

- (1) Amounts transferred into Level III from Level II were \$5.7 million for the year ended December 31, 2012 as a result of increased variation among the available broker quotes and other support for the valuation of a debt investment. Amounts transferred into Level III from Level II were \$1.9 million for the year ended December 31, 2011. These amounts were transferred as a result of a change in the quantity and quality of information obtained to support the fair value of the investment.
- (2) Amounts transferred out of Level III were \$202.8 million for the year ended December 31, 2012 as a result of increased variation among the available broker quotes and other support for the valuation of a debt investment and as a result of the initial public offering of certain portfolio companies. Amounts transferred out of Level III were \$98.4 million for the year ended December 31, 2011.
- (3) Unrealized losses, net, of Level I and II investments were \$(197.1) million and \$(68.5) million for the years ended December 31, 2012 and 2011, respectively.
- (4) As of December 31, 2012 and 2011, the cost basis of the Level III investments was \$1,276.8 million and \$1,808.4 million, respectively.

The following table provides quantitative measures used to determine the fair values of the Level III investments as of December 31, 2012:

Industry	Level 3 Fair Value	Valuation Technique(s)	Unobservable Input used	Multiple	Weighted Average
	<i>(in thousands)</i>				
<b>Services - Services</b> <i>Financial and Business Services</i>	<u>\$ 1,581,975</u>	Discounted Cash Flow / Market Multiples	Weighted Average Cost of Capital / Comparable Multiple	1.23-8.8x	12.6-15.0%
<b>Total</b>	<u>\$ 1,581,975</u>				

The significant unobservable inputs used in the fair value measurement of the Investment Partnership's Level III investments are the comparable multiples and weighted average cost of capital rates applied in the valuation models for each investment. These inputs in isolation can cause significant increases or decreases in fair value. Specifically, the comparable multiples are generally multiplied by the underlying company's embedded value to establish the total

# Financial Statements of AAA Investments, L.P.

enterprise value of our investments which is comparable to multiples of embedded value and is determined based on the implied trading multiple of industry peers. Similarly, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. An increase in the discount rate can significantly lower the fair value of an investment; conversely a decrease in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the weighted average cost of capital calculation that weights the cost of equity and the cost of debt based on comparable debt to equity ratios. The valuation methodology utilized to determine the fair market value for one portfolio company changed during the second quarter from using only the fair value as determined by comparable company trading multiples to a blended average of the fair value determined using both comparable company trading multiples and a discounted cash flow analysis. The change was deemed prudent in light of the cyclical nature in the portfolio companies' geographic and end product markets.

## *Information Regarding Certain Investments held by the Investment Partnership*

Apollo Strategic Value Fund primarily invests in the securities of leveraged companies in North America and Europe through three core strategies: distressed investments, value-driven investments and special opportunities. In connection with the redemptions requested by the Investment Partnership of its investment in Apollo Strategic Value Fund, the Investment Partnership's investment in the Apollo Strategic Value Fund was converted into liquidating shares issued by the Apollo Strategic Value Fund. The liquidating shares were initially allocated a pro rata portion of each of the Apollo Strategic Value Fund's existing investments and liabilities, and as those investments are sold, the Investment Partnership is allocated the proceeds from such disposition less its proportionate share of any current expenses incurred by the Apollo Strategic Value Fund. During the years ended December 31, 2012 and 2011, the Investment Partnership received proceeds from redemptions of \$21.0 million and \$10.0 million, respectively, from the Apollo Strategic Value Fund and recognized realized gains on the distributions of \$8.1 million and \$2.1 million, respectively. For the year ended December 31, 2012, the Investment Partnership also realized a gain of approximately \$57.4 million on its investment in the Apollo Strategic Value Fund as a result of the Transaction.

Other Apollo Credit Funds is comprised of Apollo Investment Europe, Apollo European Principal Finance Fund, Apollo Asia Opportunity Fund and Apollo Asia Private Credit Fund.

Apollo Investment Europe invests in mezzanine, debt and equity investments of both public and private companies primarily located in Europe. Apollo Investment Europe operates under a shareholder-approved monetization plan, the primary objective of which is to maximize shareholder recovery value by (i) opportunistically selling Apollo Investment Europe's assets over a three-year period which ended July 2012 (subject to a one-year extension with the consent of a majority of Apollo Investment Europe's shareholders) and (ii) reducing the overall costs of the fund. As of July 2, 2012, all investments of Apollo Investment Europe had been sold. Apollo Investment Europe will withhold a portion of the remaining cash to cover wind-down costs,

# Financial Statements of AAA Investments, L.P.

audit fees, legal and other expenses, or to cover potential liabilities associated with the sale of certain portfolio investments. During the year ended December 31, 2012, the Investment Partnership received distributions, net of a holdback for wind down, of \$15.1 million, which resulted in realized losses of \$176.0 million, excluding the effects of foreign currency losses, which were minimal. For the year ended December 31, 2012, the Investment Partnership also realized a gain of approximately \$0.1 million on its investment in Apollo Investment Europe as a result of the Transaction.

Apollo European Principal Finance Fund invests primarily in European non-performing loans, or NPLs. Apollo European Principal Finance Fund seeks to capitalize on the inefficiencies of financial institutions in managing and restructuring their non-performing loans. For the year ended December 31, 2012, the Investment Partnership realized a gain of approximately \$13.6 million on its investment in Apollo European Principal Finance Fund as a result of the Transaction.

Apollo Asia Opportunity Fund invests primarily in the securities of public and private companies in Asia, excluding Japan, in need of capital for special situations such as acquisitions, refinancing, monetization of assets and distressed financings. During the first quarter of 2012, the general partner of Apollo Asia Opportunity Fund determined that it was in the best interest of the limited partners of Apollo Asia Opportunity Fund to wind down the fund and make distributions to investors as investments are liquidated. During the years ended December 31, 2012 and 2011, the Investment Partnership received distributions of \$59.5 million and \$16.2 million, respectively, from the liquidating shares of the Apollo Asia Opportunity Fund and recognized realized (losses) gains of \$(3.2) million and \$1.9 million, respectively, on these distributions. For the year ended December 31, 2012, the Investment Partnership also realized a gain of approximately \$0.5 million on its investment in the Apollo Asia Opportunity Fund as a result of the Transaction.

Apollo Asia Private Credit Fund invests principally in private mezzanine and subordinated debt instruments, convertible debt and convertible preferred securities, and private equity and related instruments primarily in high-growth, middle market companies located in the Asia Pacific region.

Investments made pursuant to the Investment Partnership's co-investment arrangement with certain Apollo funds are not redeemable. When the Apollo funds, with which the Investment Partnership co-invested, determine to sell or otherwise dispose of the investment, the Investment Partnership must sell or otherwise dispose of its investment, concurrently with, and on substantially equivalent economic terms as those applicable to such funds.

In January 2011, the Investment Partnership provided a short-term collateralized financing of \$100.0 million to Athene Life Insurance Company bearing interest at a rate of LIBOR plus 0.75%. The financing was repaid in full in January 2011 by Athene Life Insurance Company inclusive of interest.

# Financial Statements of AAA Investments, L.P.

## 4. CAPITAL TRANSACTIONS

At December 31, 2012 and 2011, the General Partner's interest in the Investment Partnership was 4.029% and 1.527%, respectively, and the limited partner's interest in the Investment Partnership was 95.971% and 98.473%, respectively. The change in the partners' respective interests from December 31, 2011 to December 31, 2012 is primarily due to the payment of \$10.3 million of carried interest to the General Partner for realized carried interest on co-investments made alongside Apollo Investment Fund VII partially offset by accrued carried interest generated during the year ended December 31, 2012 on the private equity co-investments and opportunistic investments of \$57.1 million. The carried interest entitles the General Partner to receive a portion of the profits generated by the investments.

For the year ended December 31, 2012, the Investment Partnership made total partners' capital distributions of \$112.1 million. The distributions to the General Partner totaled \$10.3 million and primarily related to carried interest. Partners' capital distributions made to or on behalf of AAA were \$101.8 million, primarily related to the February and April Tender Offers and for tax withholdings on dividends received.

For the year ended December 31, 2011, the Investment Partnership made partners' capital distributions of \$33.4 million to or on behalf of AAA, primarily related to AAA's cash distributions to unitholders, tax withholdings on dividends received and payment of operating expenses. On June 22, 2011, AAA paid a distribution of \$0.31 per unit, or \$28.0 million in aggregate, to unitholders of record immediately after the close of business of June 10, 2011.

## 5. CREDIT FACILITY

In 2007, the Investment Partnership obtained a \$900 million senior secured revolving credit facility from certain U.S. financial institutions with the objective of funding the liquidity needs, increasing the amount of cash that is available for working capital and for making additional investments or temporary investments. As a result of debt repurchases and pay downs, the revolving credit facility was permanently reduced to \$537.5 million. On December 2, 2011, the Investment Partnership amended its senior secured revolving credit facility and converted it to a \$402.5 million senior secured term loan facility that matures on June 30, 2015. On November 1, 2012, AAA Investments repaid the remaining balance of \$305.2 million on its term loan outstanding.

The financial institutions have a security interest in the equity interests directly owned by the Investment Partnership in each AAA Guarantor. Amounts outstanding under the senior secured term loan facility bear interest at (a) for any Eurocurrency loan, the adjusted LIBOR plus 3.75% and (b) for any ABR loan, the Alternate Base Rate plus 2.75%. Under the senior secured term loan facility, the Investment Partnership is required to make scheduled amortization payments of 20% of the outstanding principal amount of term loans per quarter beginning in December 2014. It is also required to make mandatory prepayments for certain investment realizations, asset sales, debt incurrence and equity issuances. The prepayment amount will range from 50% to

# Financial Statements of AAA Investments, L.P.

100% of net proceeds, as defined, depending on the applicable asset to debt ratio level and whether an event of default is continuing. During the year ended December 31, 2012, the Investment Partnership made mandatory prepayments of \$97.3 million on the senior secured term loan as a result of certain investment realizations and asset sales.

At December 31, 2012, there were no borrowings outstanding under the loan facility since it was repaid November 1, 2012. At December 31, 2011 there was \$402.5 million outstanding on the loan facility, bearing interest at an average rate of 4.26%. Included in Other Assets at December 31, 2012 and December 31, 2011, is \$0 million and \$2.0 million, respectively, of debt financing costs related to the credit facility. The debt financing costs were amortized over the life of the credit facility and were written off upon repayment of the term loan on November 1, 2012. Included in general and administrative expense for the years ended December 31, 2012 and 2011 is \$13.4 million and \$8.6 million, respectively, related to interest expense on the credit facility.

## 6. RELATIONSHIP WITH APOLLO AND RELATED PARTY TRANSACTIONS

Subject to the supervision of the board of directors of the Managing Investment Partner and the board of directors of the Managing General Partner, Apollo, through the services agreement with Apollo Alternative Assets, is responsible for selecting, evaluating, structuring, performing due diligence, negotiating, executing, monitoring and exiting the investments and for managing the uninvested cash of the Investment Partnership. These investment activities are carried out by Apollo's investment professionals and Apollo's investment committee pursuant to the services agreement or under the investment management agreements between Apollo and its private equity funds. As the service provider, Apollo Alternative Assets' involvement in the investments of the Investment Partnership relates primarily to investments in Apollo-sponsored private equity funds and credit funds, direct co-investments in portfolio companies of Apollo-sponsored private equity funds, other investments including opportunistic investments in entities formed by Apollo, and cash management activities. Apollo, and/or its affiliates, also receives directly from portfolio companies in which the Investment Partnership has direct or indirect investments, transaction, management, underwriting, monitoring, board of director and other fees related to services provided in connection with acquisitions of such portfolio companies and ongoing management services rendered to such portfolio companies.

**Commitment**—The Investment Partnership has no remaining commitments as of December 31, 2012.

**Services Agreement and Management Fee**—The Investment Partnership, the General Partner, the Managing Investment Partner, AAA and the Managing General Partner have entered into a services agreement with Apollo Alternative Assets pursuant to which Apollo Alternative Assets has agreed to provide certain investment, financial advisory, operational and other services to them. Under the services agreement, Apollo Alternative Assets is responsible for the day-to-day operations of the services recipients and is subject at all times to the supervision of their respective governing bodies, including the board of directors of the Managing Investment Partner and the board of directors of the Managing General Partner.

# Financial Statements of AAA Investments, L.P.

Under the services agreement, the Investment Partnership and the other service recipients have jointly and severally agreed to pay Apollo Alternative Assets a management fee, quarterly in arrears, in an aggregate amount equal to one-fourth of the sum of (i) AAA's adjusted assets up to and including \$3 billion multiplied by 1.25% plus (ii) AAA's adjusted assets in excess of \$3 billion multiplied by 1%. For the purposes of the agreement, "adjusted assets" is primarily defined for any quarterly period as the sum of (A)(i) the cumulative net proceeds in cash or otherwise of the issuance of limited partner interests in AAA, after deducting any underwriting costs or commissions and other expenses and costs related to the issuance, for such period and any prior period (ii) the proceeds of any borrowings by AAA or the Investment Partnership outstanding at the end of such period, and (iii) the cumulative distributable earnings of AAA for such period and any prior period (taking into account actual distributions but without taking into account the management fee payable for such period or any non-cash equity compensation expenses incurred in such period or any prior periods) less (B) the sum of (without duplication) (x) any amount paid by AAA for the repurchase of limited partner interests in AAA during such period, (y) an amount equal to the capital invested in Apollo-sponsored funds, and (z) the average of the daily values of the temporary investments held during such three month period, plus any of the cumulative distributable earnings for such three month period as are attributable to such temporary investments, and further adjusted to exclude (i) one-time events pursuant to changes in U.S. GAAP and (ii) any non cash items jointly agreed to by AAA's Managing General Partner (with the approval of a majority of its Independent Directors), on behalf of itself and the other Service Recipients, and the Service Provider. Generally, it is anticipated that adjusted assets for the purpose of the management fee will be approximately equal to the asset value, which includes the value of assets acquired with the proceeds of borrowings incurred by us, if any, less (i) the value of the capital investments in the Apollo-sponsored funds and (ii) the value of the temporary investments. The management fee under the services agreement therefore reflects the value of unrealized investments, other than in respect of capital invested in Apollo-sponsored funds. In respect of capital invested in Apollo-sponsored funds, Apollo will receive management fees directly from the relevant funds.

On October 31 2012, the Board of Directors of the Managing General Partner agreed with Apollo Alternative Assets to amend and restate the services agreement as a result of the Transaction. The amendment related to the quarterly management fee that will be paid until December 31, 2014 (but services will continue until December 31, 2020 for the purposes of the unwind fee as described below. In the event that AAA makes a tender offer for all or substantially all of its units where the consideration is to be paid in Athene shares (or an alternative transaction that is no less favorable, in all material respects to the AAA unitholders as a whole), the management fee will be unwound and a lump sum payment will be made to the relevant AGM subsidiary equal to the remaining management fee that would have been due until the expiration date (December 31, 2020), using an 8% discount rate and assuming a 14% growth rate to then existing management fees, compounded annually, until the expiration date, subject to a cap of \$30.0 million if the realization event commences in 2013, \$25.0 million if the realization event commences in 2014, \$20.0 million if the realization event commences in 2015 and zero if the realization event commences in 2016 or thereafter. The Manager has further agreed that the Investment Partnership has the option to settle all such management fees payable either in cash

# Financial Statements of AAA Investments, L.P.

or Athene shares valued at the then fair market value (or an equivalent derivative). In addition, any carried interest payable to affiliates of the Manager resulting from a distribution in cash or in kind of Athene shares (or an equivalent derivative) shall also be valued at the then fair market value.

Prior to the second quarter of 2007, the period that the profits on the investments of the Investment Partnership that were subject to a carried interest equaled the managers' commissions and placement fees and the other fees and expenses that AAA incurred in connection with AAA's initial offering and related transactions, the management fee that was payable under the services agreement in respect of the quarterly period was subject to reduction by the lower of (i) the aggregate amount of "allocable fund distributions" to Apollo and its affiliates during such period and (ii) (x) 5% of the gross income (other than income that qualifies as capital gain) earned by or allocated to AAA for U.S. federal income tax purposes during such period minus (y) any gross income earned by or allocated to the partnership for U.S. federal income tax purposes during such period that is not "qualifying income" as defined in Section 7704(d) of the U.S. Internal Revenue Code. To the extent that the amount of reductions to the management fee in a particular quarterly period exceeded the amount of the management fee payable in respect of that period, Apollo Alternative Assets was required to credit the difference against any future management fees that became payable under the services agreement. For the years ended December 31, 2012 and 2011, the Investment Partnership's management fees were \$13.7 million and \$17.7 million, respectively. Management fees payable of \$0.6 million and \$4.3 million are included in Due to Affiliates in the Investment Partnership's Statement of Assets and Liabilities at December 31, 2012 and 2011, respectively.

The services agreement contains certain provisions requiring the Investment Partnership to indemnify Apollo and its affiliates with respect to all claims, liabilities, losses, costs, expenses or damages arising from the services agreement or the services provided by Apollo Alternative Assets, except to the extent that such claims, liabilities, losses, costs, expenses or damages are finally determined by a court of competent jurisdiction to have resulted from the indemnified person's willful misconduct or gross negligence. The Investment Partnership has historically not incurred any liabilities as a result of these guarantees and does not expect to in the future. Accordingly, no liability has been recorded in the accompanying financial statements.

**Carried Interests and Investments**—Each investment that is made by the Investment Partnership is subject to one carried interest, which will generally entitle an affiliate of Apollo to receive a portion of the profits generated by the investment. In particular:

- **Opportunistic Investments**—The General Partner is generally entitled to a carried interest that will allocate to it 20% of the realized returns (net of related expenses, including any allocable borrowing costs) of opportunistic investments in Apollo Life Re Ltd made by the Investment Partnership excluding the shares issued in connection with the Contribution Agreement.

Prior to the Transaction, the following investments were subject to carried interest:

# Financial Statements of AAA Investments, L.P.

- **Co-Investment Facilities**—The General Partner was generally entitled to a carried interest that was to allocate to it 20% of the realized gains (net of related expenses, including any allocable borrowing costs) on each co-investment made pursuant to a co-investment facility (such as the agreement with Apollo Investment Fund VI) after capital contributions in respect of realized investments made pursuant to that co-investment facility had been recovered. The General Partner's carried interest in respect of each investment made pursuant to the co-investment agreement with Apollo Investment Fund VI was subject to the Investment Partnership first achieving a preferred return of 8% per annum on the capital invested pursuant to the agreement. There was no preferred return requirement in determining carried interest relating to co-investments alongside Fund VII. Once such preferred return had been achieved, the General Partner was entitled to the next 2% (25% of 8%) of net realized gains and, thereafter, such gains were to be allocated as 80% to the Investment Partnership and as to 20% to the General Partner. Realized gains and losses on investments made pursuant to one co-investment facility were not netted against other co-investment facilities in future Apollo private equity funds.
- **Apollo Strategic Value Fund**—An affiliate of Apollo was entitled to a carried interest for each year amounting to 20% of any appreciation in net asset value, subject to first making up any losses carried forward from prior years other than losses attributable to capital that the Investment Partnership withdraws from Apollo Strategic Value Fund after losses were incurred.
- **Other Apollo Credit Funds**—For the Apollo European Principal Finance Fund, an affiliate of Apollo was entitled to a carried interest that was to allocate to it 20% of the realized returns generated by the fund after capital contributions in respect of realized investments and expenses had been returned to the limited partners, and subject to achieving an 8% preferred return (with a full catch-up) on such capital contributions. In connection with the wind down of the Apollo Asia Opportunity Fund, an affiliate of Apollo was only entitled to a carried interest on the original liquidating shares at an annual rate of 20%, subject to first making up any losses carried forward from prior years on the original liquidating shares. Effective May 1, 2012, the management fees for the Investment Partnership's investment in Apollo Asia Opportunity Fund were reduced to 0.75% annually. For the period prior to April 30, 2012, the management fees charged ranged from 1.0% or 1.5% on existing capital to 2% on capital that was previously converted into liquidating shares. For Apollo Asia Private Credit Fund, an affiliate of Apollo was entitled to a carried interest that was to allocate to it 12.5% of the realized returns generated by the fund after capital contributions and expenses have been returned to the limited partners, and subject to achieving a 7% priority return.
- **Other Opportunistic Investments**—An affiliate of Apollo was entitled to a carried interest of 20% of the realized profits related to the Investment Partnership's investment in GA Data Holdings Ltd, subject to the Investment Partnership achieving a 15% preferred return.
- **Temporary Investments (including cash)** —The General Partner was not entitled to a carried interest with respect to temporary investments.

# Financial Statements of AAA Investments, L.P.

For the years ended December 31, 2012 and 2011, the General Partner was allocated \$2.3 million and \$5.0 million, respectively, related to changes in carried interest on private equity co-investments. During the year ended December 31, 2012, the Investment Partnership paid \$10.3 million to the General Partner for realized carried interest. For the years ended December 31, 2012 and 2011, \$54.8 million and \$4.5 million, respectively, was allocated to the General Partner by the Investment Partnership for carried interest on opportunistic investments. For the years ended December 31, 2012 and 2011, affiliates of Apollo received \$0.0 million and \$3.0 million, respectively, related to carried interest for appreciation in net asset values in certain credit funds.

Apollo enters into transaction and monitoring agreements with the portfolio companies of its private equity funds as well as opportunistic investments in which it receives periodic fees for assisting the portfolio companies and opportunistic investments on an ongoing basis with respect to management, operational and other matters. Apollo may also receive transaction and closing fees in connection with portfolio company investments, which may be capitalized as cost of investments by AAA. In the case of unconsummated investments Apollo may recognize potential break-up fees. For the years ended December 31, 2012 and 2011, Apollo received monitoring, transaction, advisory, capital call closing, underwriting, board of director and break-up fees of \$31.1 million and \$21.2 million, respectively, related to the Investment Partnership's portion of direct investments in private equity co-investments and opportunistic investments.

From time to time, the Investment Partnership may participate in transactions with affiliates of its general partner including with, but not limited to, other funds managed by affiliates of its general partner, portfolio companies of the Investment Partnership, and other affiliates of the General Partner. These transactions (which include, but are not limited to, the sale of portfolio assets among Apollo-sponsored funds or entities) are generally executed at fair value as determined by the investment manager.

**Asset Management**—During 2009, Apollo formed Athene Asset Management LLC (“Athene Asset Management”), an investment manager that provides asset management services to Athene Holding Ltd and its affiliates (“Athene”), and other third parties. In addition, certain Apollo affiliates manage assets for Athene Asset Management and earn sub-advisory fees for these services. For the years ended December 31, 2012 and 2011, Athene Asset Management and other Apollo Affiliates earned asset allocation fees, transaction fees, service fees, incentive fees and subadvisory fees, net of subadvisory fees paid to parties not affiliated with Apollo, of \$43.6 million and \$20.8 million, respectively, from Athene based upon the assets under management.

Athene has entered into shared services and cost sharing agreements (the “Agreements”) with Athene Asset Management effective on or after January 1, 2012. The services to be provided under the Agreements include the following, among others, (i) for each U.S. subsidiary of Athene, executive management, corporate development, marketing communications, human resources, legal, corporate governance, risk management and liability hedging and investment accounting and (ii) for Athene and each non-U.S. subsidiary, investment advice in connection with stock acquisition activities, shareholder activities related to capital raising and reporting and non-investment services related to stock acquisitions. Pursuant to the Agreements, the services to

# Financial Statements of AAA Investments, L.P.

be provided by Athene Asset Management are provided at cost, with such cost determined based on (i) the compensation, benefits, employment taxes and other expenses paid by Athene Asset Management in respect of each Athene Asset Management employee or consultant who is spending time on certain services provided to the applicable subsidiary of Athene and (ii) each such employee's or consultant's time spent on such services, as reasonably estimated by each such employee or consultant on at least a monthly basis based on the percentage of time spent on such services for each subsidiary of Athene.

**Note Receivable From Affiliate**— Included in note receivable from affiliate at December 31, 2012 is a short-term promissory note from Athene with a principal amount of approximately \$113.3 million, which will bear interest at a rate of 0.30% per annum, and which is payable upon demand by the Investment Partnership and that Athene may prepay at its option at any time, without penalty.

**Due From Affiliates**—Included in due from affiliates at December 31, 2012 is \$3.2 million receivable from AAA for expense reimbursements. Included in due from affiliates at December 31, 2011 is \$0.2 million receivable from AAA for expense reimbursements and \$2.8 million for the remaining proceeds from the redemption of the Apollo Credit Senior Loan Fund.

**Due to Affiliates**—Due to affiliates at December 31, 2012 and 2011 consisted of \$0.6 million and \$6.1 million, respectively, payable to Apollo Alternative Assets or affiliates for management fees, broken deal expenses, investment-related expenses and other general and administrative expenses payable. Also included in due to affiliates is \$1.3 million and \$0.8 million payable at December 31, 2012 and 2011 respectively, to Apollo Alternative Assets or affiliates for services rendered by an employee of Apollo for assistance with the strategic positioning of AAA.

**Personal Interests of Directors**—Certain directors of the Managing General Partner, the Managing Investment Partner and Apollo Alternative Assets GP Limited, the general partner of Apollo Alternative Assets, L.P., the manager of the Investment Partnership, participate in certain of the investments in which the Investment Partnership invests. The following is a summary of the personal interests of the directors in such investments at fair value:

<i>(in thousands)</i>	As of December 31, 2012	As of December 31, 2011
Apollo Strategic Value Fund	N/A	\$ 327
Apollo Investment Europe	N/A	1,624
Apollo Asia Opportunity Fund	N/A	5,146
Apollo European Principal Finance Fund	N/A	4,074
Apollo Asia Private Credit Fund	N/A	–
Apollo Investment Fund VI	\$75,157	73,778
Apollo Investment Fund VII	N/A	58,704

In addition, certain directors of the Managing General Partner, the Managing Investment Partner and Apollo Alternative Assets GP Limited are AAA unitholders. At December 31, 2012 and 2011,

# Financial Statements of AAA Investments, L.P.

the directors owned approximately 2.3 million and 2.3 million units of AAA, respectively. This excludes 2.3 million and 2.2 million units owned by an affiliate of Apollo, which certain directors are deemed to beneficially own at December 31, 2012 and 2011, respectively.

## 7. FINANCIAL HIGHLIGHTS

Financial highlights for the Investment Partnership were as follows:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Total return*	24.12%	(7.23)%
Ratios to average net assets*:		
Expenses	2.49%	2.01%
Investment (loss) income	(0.61)%	0.23%

\* These financial highlights have been calculated using a methodology in accordance with U.S. GAAP. The total return and ratios to average net assets have been presented on an annualized basis and were calculated on a weighted average basis.

The Investment Partnership's turnover ratios were 17% and 44% for the years ended December 31, 2012 and 2011, respectively.

## 8. COMMITMENTS AND CONTINGENCIES

The Investment Partnership may, from time to time, be party to various legal actions arising in the ordinary course of business including claims and litigations, reviews, investigations or proceedings by governmental and self regulatory agencies regarding their respective businesses. It is the opinion of the Managing General Partner and Managing Investment Partner, after consultation with counsel, that there are presently no existing matters that would result in a material adverse effect on the financial condition of the Partnership.

## 9. SUBSEQUENT EVENTS

During January and February 2013, under its existing agreements, Athene Holdings called approximately \$82.1 million in capital from other investors. As a result, AAA's ownership in Athene was diluted by approximately \$43.1 million from approximately 77% to approximately 72% and the other investors' ownership increased from approximately 23% to approximately 28%.

On February 6, 2013, AAA announced that its tender offer which was originally launched on November 12, 2012 and subsequently extended on December 10, 2012, will now expire on February 27, 2013.

# Financial Statements of AAA Investments, L.P.

## 10. SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED)

### Quarterly Results

<i>(in thousands)</i>	For the Three Months Ended March 31, 2012	For the Three Months Ended June 30, 2012	For the Three Months Ended September 30, 2012	For the Three Months Ended December 31, 2012
Investment income	\$ 10,184	\$ 11,031	\$ 4,122	\$ 3,604
Expenses	(9,391)	(9,802)	(11,752)	(7,380)
Net investment (loss) income	793	1,229	(7,630)	(3,776)
Net realized gains (losses) from sales	13,972	25,745	(171,535)	178,346
Net change in unrealized depreciation /appreciation on investments	139,022	(34,826)	201,400	2,690
	152,994	(9,081)	29,865	181,036
Net increase (decrease) in net assets resulting from operations	<u>\$ 153,787</u>	<u>\$ (7,852)</u>	<u>\$ 22,235</u>	<u>\$ 177,260</u>

<i>(in thousands)</i>	For the Three Months Ended March 31, 2011	For the Three Months Ended June 30, 2011	For the Three Months Ended September 30, 2011	For the Three Months Ended December 31, 2011
Investment income	\$ 4,779	\$ 8,430	\$ 10,107	\$ 14,841
Expenses	(8,119)	(8,115)	(7,394)	(10,637)
Net investment (loss) income	(3,340)	315	2,713	4,204
Net realized gains (losses) from sales	22,072	290	(425)	1,023
Net change in unrealized depreciation /appreciation on investments	124,467	66,431	(343,833)	11,587
	146,539	66,721	(344,258)	12,610
Net increase (decrease) in net assets resulting from operations	<u>\$ 143,199</u>	<u>\$ 67,036</u>	<u>\$ (341,545)</u>	<u>\$ 16,814</u>

# Financial Statements of AAA Investments, L.P.

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