# FORTRESS INVESTMENT GROUP LLC

**Moderator: Gordon Runté**
**October 30, 2014**
**10:00 a.m. ET**

Operator: Good morning. My name is Stephanie and I will be your conference operator today. At this time, I would like to welcome everyone to the Fortress Investment Group Third Quarter Earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad.

If you would like to withdraw your question, press the pound key. Thank you. I would now like to turn the call over to Gordon Runté, Head of Investor Relations. Please go ahead, sir.

Gordon Runté: Thank you, Stephanie. Good morning, everyone, and welcome to the Fortress Investment Group Third Quarter 2014 Earnings conference call. I want to point out that in addition to our earnings press release, we also issued this morning a presentation entitled "Private Equity and Permanent Capital Overview", which is available on our website. If you've not done so, I would encourage you to download the presentation at this time. Fortress co-Chairman and Head of Private Equity, Wes Edens, will provide some thoughts and color on this presentation following opening remarks from Chief Executive Officer, Randy Nardone, and Chief Financial Officer, Dan Bass.

We will save most of our time today for your questions. Joining for us that portion of our call, we have with us co-Chairman and Head of Credit, Pete Briger, Principal and Head of Liquid Markets, Mike Novogratz, co-President of Liquid Markets, Stuart Bohart, CEO of Logan Circle, Jude Driscoll, along with other members of our management team.

Lastly, just let me cover a few housekeeping items before we begin. I'll remind you that statements made today that are not historical facts may be forward-looking statements and these statements are by their nature uncertain and they differ materially from actual results. So we encourage you to read the forward-looking statement disclaimer in today's earnings release in addition to the risk factors described in our quarterly and annual filings. I also remind you that statements are made as of today, October 30, 2014, and will not be updated subsequent to the call.

With that, let me hand off to Randy.

Randy Nardone: Thanks, Gordon, and thank you, everyone, for joining us.

Three quarters into 2014, and we are on track for a very strong year. AUM of $66 billion is our all-time high. Distributable earnings were $0.12 for the quarter and $0.72 per share year-to-date. This is our highest first three quarters of DE since our first year as a public company. Embedded value remains substantial: Unrealized gross incentive income—which is not included in DE—stands at $1.0 billion. And net cash and investments on our balance sheet increased to $1.4 billion. With today's dividend announcement, we've paid or committed $0.42 a share in dividends so far this year.

The embedded value I cited sums to about $4.30 net per share. If you back this out of our share price today, the resulting share price is just over 3x our last 12 months of after-tax DE. That seems like a pretty substantial bargain given the earnings and growth dynamics of our company today.

Heading into the fourth quarter, many indicators point to strong future earnings and potential distributions. Let me give some more color by business.

In Private Equity we had a very productive quarter. Main fund valuations increased by over 3% for the quarter and over 5% year-to-date. And the increase in the marks on our public stocks this month have lifted the main fund valuations another 2-plus%. That follows NAV appreciation of over 40% for the prior 2 years. Valuation gains now exceed $12 billion since the low in 2009. PE investments represent more than half our balance sheet and at current carrying values reflect about $400 million of embedded DE.

You'll note in our press release that we've modified our segments to tie our balance sheet investments to the businesses responsible for those investments. On this basis, year-to-date DE for Private Equity is $164 million, compared to $80 million for the same period last year. We believe providing more clarity on the total value created by each business segment will help those looking to calculate a true segment-based sum-of-the-parts valuation for the company.

On the permanent capital front, we've had a great nine months of progress. Our permanent capital business has $5.0 billion in AUM and commitments today. That includes our Transportation and Infrastructure fund, WWTAI, which is in registration. We raised over $670 million in permanent capital during the quarter. And we announced the spin-off of our Senior Living business from Newcastle, which started trading separately this week  So, continued progress, continued growth and continued great expectations for permanent capital.

Moving to Credit: the overriding theme, once again, is strong consistent investment returns driving DE and embedded gains. Our Credit hedge fund, DBSO, is up 7.7% net through September, and has a 5-year annualized net return of about 20%. Our flagship Credit PE funds have net IRRs ranging from just over 18% to almost 30%. Performance in these funds resulted in $41 million of realized incentive income in the third quarter and $120 million year-to date. All main Credit fund NAV —over $15.5 billion—is above performance thresholds. And at quarter end, gross unrecognized incentive income totaled over $920 million across the Credit business.

On capital formation, we had commitments of $165 million for credit hedge funds in the quarter and nearly $950 million year-to-date.

At the same time, we are raising three next generation PE-style funds: a fourth global opportunities fund, a third Japan fund and a second Real Estate fund. So, continued excellence in Credit.

Moving to Liquid Markets, our macro funds have had a challenging year on the performance front. We were up a little more than 1% for the quarter but, through October 24, the main Fortress Macro Fund was down roughly 9% and Asia Macro, roughly 7%, net year-to-date. Despite this, inflows remain strong. We've raised nearly $400 million in Fortress Macro this year, with additional inflows expected in November. Roughly half of Asia Macro's $3.1 billion was raised this year, and we continue to receive indications of interest for when the fund is next reopened.

Most important, we see a good opportunity set for turning performance around. We've rebounded sharply from down periods in the past, and we remain confident that we will get back to incentive territory.

Separate from the investment team's focus, we will continue to selectively diversify this business to build new avenues for potential growth. A good example is the Fortress Centaurus Global Fund. Since its recent launch, the fund has been well received as investors show renewed interest in the "event driven" space. We expect more strategic additions in Liquid Markets to follow and over time, our objective is to build a diversified, multi-fund platform.

At Logan Circle, investment performance and fundraising have been very strong. Once again, all 16 of Logan's fixed income investment strategies outperformed benchmarks in the quarter. 15 out of 16 have outperformed benchmarks since inception.

Logan AUM reached an all-time high of over $31 billion at the end of the third quarter. We've seen accelerating net inflows of $2.2 billion in the quarter, for a total of $4.4 billion year-to-date. We believe Logan's brand and performance can support an even stronger pace of growth.

To wrap up, we entered the fourth quarter with record AUM, broad-based demand for our strategies, potentially transformative business initiatives gaining traction and scale, and a substantial store of embedded value that has meaningful implications for DE and distributions in future periods.

Considering these strengths, we are confident that we will have another strong full year, with catalysts in place for considerable potential upside in 2015 and the years ahead.

With that, let me hand it off to Dan.

Dan Bass: Thanks Randy. Good morning, everyone.

Before I get to the results, as you heard we made a change to our segment reporting this quarter. We moved the income and loss derived from our Principal Investments segment into each of our businesses. While there is no bottom line impact to our financials, as Randy mentioned, we believe this change will give investors better insight into the total value created by each of our businesses.

Now, let me review our results in greater detail.

We're having a very good year of earnings, with pre-tax DE of $0.72 per share through September. That is EPS growth of 13% when compared to the same time last year and 125% looking back over a couple of years. For the third quarter, pre-tax DE was $0.12 per share, compared to $0.13 per share last year. As we've discussed, DE on a quarterly basis will be influenced, sometimes significantly, by simple timing. For example, last quarter we had balance sheet realizations that resulted in significant investment gains recognized in DE. That was not the case this quarter. But while the timing of these realizations is difficult to forecast, we expect to see similar dynamics play out in a very positive way in future quarters. This is because we have over $570 million of DE currently embedded in our balance sheet. So overall, earnings have trended up. And the underlying metrics point to great potential for growth as well. Let me discuss a few of these metrics in greater detail.

First, on AUM. During the quarter, our AUM grew another 3% to $66 billion. With this, our AUM has grown 7% for the year and now has a five year CAGR of 16%. Growth in AUM came even after we returned another $1.2 billion of capital to investors during the quarter. This brings year-to-date $4.5 billion of capital returned to LPs. The AUM growth this quarter resulted largely from two items, capital deployment and flows into Logan Circle.

During the third quarter, we deployed nearly $1 billion of capital from our existing dry powder. After deploying this capital, we still have $7.5 billion of dry powder remaining. As you heard, net inflows into Logan Circle topped $2 billion for the quarter. That is now nearly $6 billion of net inflows into the business over the last twelve months.

As you'd expect, AUM growth has led to an increase in management fees. Year-to-date, our management fees have grown 13%. And they have grown by approximately 30% looking back a couple of years.

Next, capital formation. During the third quarter, we raised another $1.2 billion of capital. This brings our year-to-date total to $4.6 billion.
More importantly, we have now raised in excess of $1 billion of capital for twelve consecutive quarters. And over this period we have raised approximately $20 billion of capital. We believe these facts show that we can consistently raise capital over a longer time horizon.

In addition, we are raising capital today in every one of our four businesses and pipelines are robust. Let me give you a few examples. First, as you heard earlier, we are currently in the market with three next generation Credit PE-style funds. Second, with the upcoming spin of our senior living business out of Newcastle, we will now have six permanent capital vehicles eligible to raise capital going forward. This includes our $1 billion transportation fund, which is in registration and was moved into the PCV segment this quarter.

For reference, these vehicles just raised about $700 million of capital in the third quarter alone. And finally, our Liquid strategies raised another $200 million in capital in October, bringing capital raised in that business to $2.2 billion for the year.

Moving to fund valuations. Despite a few tough months in the markets in general, our underlying PE investments have performed remarkably well. In fact, our investments increased by about $500 million or over 3% in the third quarter. Driving the increase in third quarter valuations were our public positions. And these public marks, which account for nearly 40% of our PE portfolio, are also up over $300 million, or around 6%, for October.

At the end of the quarter, we had about $1.5 billion of cash and investments on our balance sheet. Net of our $75 million of debt, this equates to a value of $3.18 per share. That is up approximately 5% in the quarter and represents nearly half of our current share price.

And on taxes. For the full year 2014, we still expect our DE tax rate to be in the mid-teens.

In closing, let me leave you with a few final thoughts. 2014 is shaping up to be another very good year for Fortress. Earnings are up significantly compared to last year. And all of the underlying metrics that can provide insight into our future earnings remain strong. This includes record AUM, momentum in capital raising and over $1 billion in undistributed incentive income to name a few. And finally, we have a healthy balance sheet that continues to increase in value and is expected to be a significant source of DE and distributions in the future.

Thank you. I will now hand it over to Wes.

Wes Edens: Great, thanks, Dan. Let me take a couple of minutes and I'll be brief, but we sent out this morning the Private Equity and Permanent Capital overview. If you have that in front of you, I'll just flip through a few of the pages just to provide a little bit of context and highlights.

So starting at page 3, just to summarize what our businesses are today because within what we classify as Private Equity and my activities, there really are a handful of different businesses. And so in an effort to try and make it clear for shareholders, and I do think that this -- the segment reporting that Dan and Randy both spoke about will go a long ways towards providing clarity to folks as to what the underlying businesses are and the performance.

As you see on page 3, the capital that we managed in those businesses has grown substantially in the last couple of years. Traditional Private Equity, $11.9 billion. That's down from 2013 even though marks and performance are up by virtue of liquidations because we've had a busy year returning capital to shareholders.

Permanent capital -- and I'll speak about it in just a minute -- has become a very large segment for us, it's one that I am very personally excited about and I think has got tremendous room for growth at $5 billion.

And then lastly, we just formed what I'm calling the "next generation" of private equity fund. It's a private equity fund that we capitalize with our own investments, really my personal investment, a number of the people inside the firm's investment. We are in the process of incubating that. That's a fund that I anticipate being a listed private equity fund and I'll tell you what I think about that in a second.

So as capital has grown, you look at the right-hand side, you can see the earnings have grown as well. Pre-tax DE for the Private Equity businesses through September 30th was at $190 million, well on pace to have a $200 million plus result for the year obviously. When you go back to where we were when we started the company as a public matter back in 2007, the PE businesses were about 50, 55 percent of the earnings, and the other businesses, the balance of it. That reversed itself and we had our share of troubles during the financial crisis. Fortunately we have Pete and the Credit business and the other folks that did a terrific job during that. The last year or so though we've seen major strides at getting back to the place where we now have both of us contributing mightily to it, and I'm very optimistic of what that means about the future.

If you look at page 4, this is just a history of what the traditional businesses were. We launched the firm and raised the first Private Equity fund back in 1998. That was a successor to a fund that I raised and invested back in Blackrock. It grew from $400 million to $12.6 billion at the peak. That relates to the $17 plus billion. Hopefully, we'll take north of $18 billion by the end of the year so to give you some context for where it was.

Page 5, you know, the performance of the funds, again, as Randy alluded to, has been terrific from the lows and now on an absolute basis, we're very happy with where we are. So Funds I and II [are] fully liquidated. Life to date returns [are] 32 percent, 46 percent. Funds III, IV, V, 8 percent, 4 percent, 8 percent where we are today. Those are all multiples that are pretty substantial. They average about 1.5x.

On the right-hand side, that's what we forecast for each one of the funds in their future performance. Now, forecasts are by nature very difficult to get correct. This is the product of a bottom up summary of what we think is going to happen on the different investments in the account. If we were to hit those numbers, you'd see that our multiples would go from the 1.6x multiple today to 2.4x multiples. Lifetime gross returns go from 13 percent to 17 percent and that's our view of what it is.

To give you a little bit more color to that, if you look at page 6, one of the challenges of the Private Equity business in this traditional form is there is a lack of transparency. It's difficult sometimes to see [what is] underlying this, but the three biggest investments that we've got in the traditional Private Equity funds, Springleaf, Nationstar, All Aboard Florida, all have been very substantial investments and all are actually big winners right now. So the bottom line, our investment base is $3.5 billion in total across the three. The NAV to-date is about $8 billion. So that's $4.6 billion to the good. The leader in terms of the returns is Springleaf at $124 million, that's up a little over 20x. So that's been an extraordinary investment for us.

But I listed the highlights of what we think are the catalysts for future upside potential. When I look at this and I look at the Private Equity business and I think about what we think the prospects are, a very inexpensive way to get leveraged exposure to these is through the stock of Fortress itself because to the extent that we actually do the kinds of things we expect to do in this business, not only will you get these kinds of returns, but you'll get also the promotes.

And, you know, one of the things we've had from analyst investors is a lot of questions about promotes. I do expect that we'll generate substantial results from these different funds. Fund V in particular is closing in on a high watermark. We think that that's a gap that we'll close and just to be clear, if we did hit the high watermark today, that's about a $0.5 billion of embedded incentive fees that would come to the firm. So there's a lot for us all to be rooting for.

Permanent capital, let me just go through this briefly, and I start with the description on page 8 of what is a permanent capital. It simply is a publically traded company that's externally advised by us. We provide advisory and leadership and shared services to it. The fee structure is typically very similar to private equity funds. I'll give you an example of that in a second. They're very long duration, potentially quote/unquote "unlimited life." They're not scheduled to be liquidated, which makes the fee streams particularly valuable. You've heard about this, I'm sure, from other investment managers that are out there. This is a very hot topic for all the right reasons.

When you look at page 9, the characteristics of a permanent capital business, one is we like to focus on things that have very large addressable markets under the theory that if you own a small part of a very large business, it could still be a very large investment fund. The transportation in infrastructure investments, that's a sector that has many trillions of dollars of assets in it. So owning a small part of that can be a very large business.

Number two, we like to focus on businesses that we think are mispriced or misunderstood. The best example for that in our stable of companies is New Media. We're I think the largest investor now in small town print media. They'll be announcing results later today, but we're extremely happy with how those guys are doing and we'll invest in assets there and generate very substantial returns.

And then lastly, these are vehicles that are very appropriate for long duration assets. [Another theory that you can make the investments, investors can create their own liquidity by buying or selling shares. You don't have to liquidate investments to do so. The senior housing business, which has been a big part of our business here, is a good example of that.

Page 10 is my favorite page of the presentation. When you look at it, if you just take our four major enterprises, we have two smaller ones that we're developing, its capital today of about $5 billion. If you simply looked at the largest competitor in each one of the cohorts, that totals market caps of over $175 billion. So in simple terms, if we were the biggest of all these cohorts, we would go from $5 billion to $175. Obviously, I don't think that that's going to happen, but certainly $5 billion going to $10 billion or $15 or $20 doesn't seem like much of a stretch when you look at the scalability of these businesses.

You know, all of this is based upon returns that need to be excellent for investors. Page 11, since we started raising capital again in Newcastle back in 2011, if you just look at how it has performed, had you owned the stock from then until now, 51 percent compounded return, total return from then until now of 226 percent. We've gone from a $4.40 share to $14.34, have split the company from one company to three companies. The theory of that, and it's a little bit of the theory of what we're doing here with segment reporting, is that by providing people with clarity on the business, you can get better valuations for shareholders and this is actually the evidence of that.

The examples of how you make the money on page 12, very simple. It's -- in this case, I used $1 billion in capital, invested at 21.5 percent. What you would do is you'd generate your management fees of 1.5 percent, an incentive fee of 25 percent on all excess returns over 10% [of invested capital]. So in this example, we would generate a total of $40 million of fees on $1 billion, less expenses, $25 million net to the bottom line. If you look at manager valuations in this sector, they tend to be very high just given again the permanence of the capital. So every $1 billion dollars in this example deployed in this way worth about $400 million, you know, to the firm. So $1 billion to $5 billion to $10 billion to $20 billion, you don't need a calculator to figure out how important that could be to us if we're able to continue to develop this.

Last thing and I'll spend two seconds on it, just the NextGen Private Equity Fund. Again, this is a $200 million fund. I invested $150 million of my own money into it. We have a number of the other folks in the firm that are invested. We're in the process of investing right now. Why do something like this? The answer is that we think that relative to the traditional model, I think that this can be compelling in particular for the kinds of things that we do. The goal is to create something that is a public vehicle eventually that invests in these private equity sectors. It provides increased transparency versus the traditional model, improved liquidity because people can buy and sell as opposed to buying and waiting to get distributions, and the permanent capital supports long-term holds.

You know, on the last page, page 15, I list a handful of things that we're focused on now. I could spend a lot of time on that -- the LNG investments, the oil terminal at Jefferson, some of our health care investments, things that we're very excited about here right now. But hopefully you'll have more to hear about this sometime next year.

So with that, I'm going to turn it over to Jude Driscoll here to talk about our Logan Circle business. Before I do so, you know, Pete and I have spent a lot of time working with Jude on the Logan Circle business. It has been a really productive time for us. And Pete, I know you have some thoughts about that you'd like to share.

Pete Briger: Thanks, Wes. And happy birthday.

Wes Edens: Thanks, Pete.

Pete Briger: You know, our Logan Circle business has been quite a success since we acquired them several years back and I just want to make some comments about the overall long-only fixed income area.

There's been a tremendous amount of publicity associated with long-only fixed income and probably more than the area should have. We're looking at a historically low yield curve environment, people worry about rising interest rates, and that should gain a tremendous amount of publicity in the markets as people have risks that they have to think about. But more to the point, a lot of the publicity and media attention has been focused on manager instability and what's happened in a couple of big situations, and as a result, it -- the area has had maybe undue publicity in media. When I think about Jude Driscoll and our long-only fixed income business, I think about a business which over the long-term has done really well and has done so in relative obscurity. And probably obscurity that is well received by investors.

I love this business, Jude and his team. They're some of the most boring guys that I know. They come to work early in the morning, they stay late, they produce top quartile or top decile returns, and, you know, you can count on them. They are a fantastic business unit and have really become terrific partners here at Fortress. Jude's a guy I've known now for more than 20 years and he has been a consistent performer in every one of those years.

Jude Driscoll: Thanks, Pete. Just on Logan, as Randy said earlier, our performance across all of our composites in fixed income is very strong. We have built over the last month or two a very strong pipeline and continue to build that going into the fourth quarter. As those assets come on, we look at it and don't have to add any head count or expenses. That helps us to be poised for margin expansion here.

This market shake up has made things very busy for us and it presents a huge opportunity for Logan. We feel like we're uniquely positioned to take advantage of this. We're the right size, correctly resourced and most of all, we look forward to competing for all of the assets that are on the move right now.

So Logan is in very good position and we look forward to adding to the bottom line for Fortress over the next several years. And with that, I'm going to hand it off to the operator for Q&A.

Operator: At this time if you would like to ask a question, please press star, then the number one on your telephone keypad. Again, that is star, then the number one on your telephone keypad to ask a question.

Your first question comes from the line of Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler: Hey. Thanks, guys. Good morning.

Gordon Runté: Good morning.

Craig Siegenthaler: First, one here on capital management. So with about $3.20 per share of net cash and investments, can you help us with the longer term range here? And I'm thinking a few years out as, you know, you have some future monetization, special dividend payouts?

And then, you know, should we really, you know, assume a decline here or more of a flattish trend because you'll have some positive marks and maybe that's also with distribution? And I also think you probably need at least 500 to 700 million per working capital corporate liquidity seed capital and maybe seed capital's planning to go higher?

So just maybe some color here would be helpful.

Randy Nardone: Hi, Craig. It's Randy. Why don't I start and maybe a couple of us can comment on that. Our goal is to have that number go up, [but][check] increase distributions. You know, mainly we're working -- we're crazed to make the balance sheet worth more. Wes commented a little bit on some of the fund valuations and I think as I noted in my remarks, the balance sheet is about half Private Equity investments.

We said in the past that our goal is to return to shareholders money as it's monetized from the balance sheet, and that's still our goal. And so I think that's responsive.

Craig Siegenthaler: Got it. And then just a follow-up here in the Private Equity franchise, and Wes, you're probably going to want to take this one -- so happy birthday first -- but can you walk us through the $5.4 billion of unrestricted dry powder? I believe this all sits in your house in the Private Equity franchise and I'm wondering can all this be used to help an existing Fortress company potentially acquire another company or are there, you know, certain restrictions here?

Randy Nardone: Craig, a big part of that dry powder is in the Credit business.

Craig Siegenthaler: Got it. So Wes, maybe you can help us, what available capital is there across your franchise and maybe a big chunk of that is not inside the dry powder bucket, there may be cash in the existing companies. I'm just trying to think about if one of your companies wanted to kind of acquire another company, what capital or debt resources you have at your exposure to do that?

Randy Nardone: Wes? Maybe there are technical difficulties as Wes is answering -- he's dialed in. There is dry powder in the permanent capital vehicles. There's dry powder in the NextGen fund.

Gordon Runté: Hey, Stephanie, maybe we go to the next question.

Operator: Certainly. Your next question comes from the line of Chris Kotowski with Oppenheimer & Co.

Chris Kotowski: I also had some questions for Wes, but are you on?

Wes Edens: Yes, I'm on. Sorry.

Chris Kotowski: Great. I mean, I guess my -- in terms of your Next Generation fund, you know, the prior three funds were all kind of, you know, multi-billion dollar funds where, you could write equity checks in the several hundred million dollar range or more even. What's going to be the approach to investing the smaller fund? Do you do smaller more middle market-type deals or club deals or find co-investors?

Wes Edens: No, the pattern that we are pursuing is to start with a small fund incubated, then take it public and have access to permanent capital, and our ambitions are for it to be a very large, multi, multi-billion dollar fund much in the way the permanent capital vehicles have actually grown. It gives you essentially unlimited access to capital so long as you’re performing for people.

The way that I think of the investment world, and Pete has talked about this at length, is that there really are two ways you can make your money. You can either, a) buy things cheap when there’s a lot of distressed in the world or b) you can grow things. This is the opposite from the “buy things cheap” kind of market. And so the things that we’re focusing on, the investments I’ve got right now in the fund, are those things that we are growing, but I absolutely aspire to invest that capital and do a great job with it, to take the company public and for it to be a large fund very similar to what we’ve done in the past.

Chris Kotowski: OK, good. And then a question for Dan on expenses. You know, normally I’m not that twitched about expenses, but if you look year-to-date, operating expenses are up about, like, 18 percent and if you look at the compensation or the profit-sharing expenses, I look at it relative to incentive fees, you know? The prior six quarters, comp expense was roughly 46 percent of incentive fees and this quarter was up to 61 percent. So can you give us a bit of color on that?

Dan Bass: Yes, two quick points. On the profit-sharing, we have different margins in each of our businesses. So in the prior periods, when we’re in the incentive in our Liquid Markets business, we generally have higher margins and lower expense ratios. That’s what you’re seeing in the prior six quarters dating back into last year and this year, that is not the case.

On the expenses side, we have small upticks due to some investments in new teams and bring-ons of the expansions of some of our businesses. And so it’s really in the business growth aspects within some of our businesses.

Chris Kotowski: OK. That's it for me. Thank you.

Randy Nardone: Thank you.

Operator: Your next question comes from Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler: Hey, thanks, guys. I don't know if we have time to go back to that other question, but I've got a few more here, too. So maybe let me just ask a question for Pete. You know, we've had a modest correction here, which is unrealized, and then it sort of came back. So maybe some of these opportunities are growing, but it looks like now that European banks are ready to start selling loans and they may be selling loans at attractive prices, this potentially could be a big opportunity for your franchise and other alternative asset managers. How should we think about this opportunity to aid you on the capital raising fund and how attractive, you know, I would say broadly is the European opportunity?

Pete Briger: Well, the European opportunity has been very over marketed. There's been a tremendous amount of capital that's been raised. It's highly competitive, overly competitive, and the transactions that have been done, you know, have been OK. The results from the European stress tests have come out and that may lead to more asset sales, but a lot of these asset sales aren't capital accretive. And so there has to be a lot of capital that's raised before these portfolios of assets can be sold. I think there's interest on part of a lot of institutions to sell assets, but difficulty from a capital perspective of actually doing that and I think it's really a wait and see thing.

The opportunity though is only going to be good if two things happen. One is there's less demand than supply, which there hasn't been to date, and two, that, you know, there's real perception of risk that comes into the credit markets. And even though we had some volatility in the equity markets, foreign exchange markets, natural resource markets over the last month, the credit markets' big picture are still very expensive. And so there's not a lot of risk premium out there versus actual risk. I think it could potentially get interesting.

I don’t think we have an issue in terms of raising capital to take advantage of the opportunity, and if the opportunity got much bigger and there was a supply and demand imbalance, we’re well positioned to take care of it or take advantage of it. That being said, I’m not overly optimistic about it.

Craig Siegenthaler: Got it. Thanks, Pete. And maybe a follow-up here for Mike on the global macro fund. You know, so I know you have a lot of goodwill with premium investors because you had some very high returns over the last few years, but we all know that performance has been softer year-to-date. I was wondering if you guys could just help us with visibility in terms of redemptions -- if we should expect kind of any pickup in redemptions either due to seasonality or due notices you’ve already received over the next few quarters.

Mike Novogratz: So yes, we’ve been in touch with all of our investors and we’ve got a great IR team that keeps them posted. To-date, we have *de minimus* redemption notices. You know, listen. This business -- and you know it as well as we do -- we’re hoping performance turns and people stay with us. I’m sure if performance goes up it’s going to look better than if performance goes down. We see a great opportunity set in this space. You know, certainly frustrated. We had a couple of big bets that went wrong, but are optimistic in the space. I put more capital in the fund myself this month as did most of our senior management team. And so, you know, we’re optimistic. And, like I said, so far *de minimus* redemption notices.

Stu Bohart: Let me just add one thing. It’s Stu Bohart. We’ve been in touch with all our clients and one of the, I think, positive aspects is for November 1st, we have a net into Mike’s fund of 175, something like that, which I think is a real vote of confidence including one of our major clients coming in with more money. And on top of that, we’re getting a lot of interest in our other funds as we diversify the business. So we have sources and good funds. I think Centaurus is up 6 percent for the year, which is a very good number in the event space. So while Mike and Adam are the big horses here on the macro funds, we are developing other funds that can bring capital into Liquid Markets.

Craig Siegenthaler: All right. Thanks, guys. Thanks for taking all my questions.

Gordon Runté: OK. Thanks, Craig.

Operator: Your next question comes from Robert Lee with KBW.

Robert Lee: Good morning, guys. Could we maybe talk a little bit about the expectations for a payout on Q4? I think one of the challenges investors have, even with seeing the runway for potential realization in DE is maybe a little more vagueness on what we should expect for distribution? -- I mean, have you thought about many of your peers target a specific payout range of DE. Is there a specific range we should be thinking about if we're going to look over the course of the year, you know, an 80 percent, 60 percent? How should we be thinking about what to expect in Q4?

Randy Nardone: Hey, it's Randy. How are you doing? Here's what we've said in the past, and this is -- this is our kind of internal, the way we think about it. We'll make regular quarterly dividends based on our net management fees, we'll make quarterly top ups primarily funded by a balance sheet, and that's what we did last quarter. Year-end top up would take into account both balance sheet and net incentive, and our goal is that in the aggregate distribute substantially all of our DE. And substantially all is not a specific number. In prior years, if you count our buybacks, we've actually distributed more than our DE. There are certain years where I'd expected to distribute less than all of our DE, you know? There's opportunity in the world and we don't want to be blind to that.

As the biggest shareholders ourselves, we love distributions, so we're very aligned on the point. So, you know, this is something that we will look at as a firm and with the Board at the end of the fourth quarter top-up wise and we'll make an announcement then.

Robert Lee: OK. Fair enough. And maybe shifting to the PE business and specifically Fund V, I think, Wes, you mentioned that you feel if you hit some of the returns you think are capable of, that you can get over the hurdle return. And I think you put these numbers in the Q, but maybe I'll just ask it here. So for you to get in Fund V to a hurdle can you possibly size for us what it would take to get to the hurdle return there from here?

Randy Nardone: Yes, it is about $600 million, $500 million[1], I think, and in terms of total incremental return from here, you see a high watermark. I list those investments on the presentation. Springleaf is obviously in Fund V, as is a good chunk of the Florida investments. Either one of those with any meaningful appreciation at all would take you well into the black in terms of the performance hurdle. And as I said, if you got to the threshold now, the total amount of incentive return would be about $0.5 billion dollars and obviously, we think it can grow a lot.

You know, just so the math -- and this is what the power is of the recovery of these -- is that between the balance sheet that we have invested in private equity, as well as, prospectively the incentive returns from Fund V, you can usually end up with $1 billion or maybe substantially more than that of returns to the firm. So we're very focused on obviously the right things here.

There was an earlier question that one of the folks had about the amount of dry powder. I think that the question was a bit focused on Springleaf obviously and what their capital is with respect to an investment that has been talked about in the news. The liquidity inside of that company is tremendous. We have a ton of capital inside the businesses that is very much dry powder incremental to the permanent capital companies that can actually access capital, as well as the private equity capital that's there.

Robert Lee: Great. And maybe one question, maybe the last one on the NextGen PE fund. I can certainly understand the attractiveness of having that permanent capital structure to make these investments, but should we be thinking of it as once it's public it's kind of a -- almost a conglomerate that, you know, just have a bunch of different businesses and then it'll be secondary offerings to bring capital in? Because, you know, the history of some publically traded PE funds, and granted they were mainly fund to funds in a way, is really fairly checkered if you think of some of the KPEs and other things of the world. So, you know, how are you thinking about this in a public context?

[1] $495 million of gains are required to cross incentive income threshold as of October 30, 2014 (based on publicly traded portfolio company investment valuations), compared to $741 million as of September 30, 2014.

Wes Edens: Well, the private context, I think those are appropriate vehicles for, you know, pools of idiosyncratic investments. So maybe diversified post-buyouts or the kind of businesses that Pete and Dean pursue and whatnot.

The types of investments that we pursue in our Private Equity business, they tend to be very focused on strategies, so we've got big verticals in transportation and infrastructure, and health care, and in financial services. And in each case, I think you can very clearly distinguish the investments and the strategy and visibility so you can actually provide transparency to investors, and I think with that, you can get a much better valuation.

When you think if you're an investor in a private equity fund as a co-mingled fund right now, one of the challenges that you feel, and especially a key result in difficult periods or turbulent periods is it's hard to know exactly how all the underlying investments are performing and also then to get liquidity on it. So you're seeing lots of secondary funds crop up for people to sell down existing positions, etc. I think that a very clear, more focused private equity fund, focused on these things that we've had decades now of very positive experiences in, will give people both liquidity and transparency and that's, I think, a real valuation bump.

If you look at the performance of what has happened in the permanent capital vehicles that we have done this with, so the Newcastle example, we've generated 50-plus percent returns for shareholders, multiples their money over the last couple of years. That's a very good example, I think, of what we can do now with this permanent capital vehicle. So I think our thought on it was put up a couple of hundred million dollars of all our money, again, a big chunk of that is mine, make these investments, once we've got visibility into how those investments are doing, list the company and I think it could be a very large enterprise.

Robert Lee: Great. I appreciate the color and thanks for taking my questions.

Operator: Your next question comes from Devin Ryan with JMP Securities.

Devin Ryan: Thank you. Good morning. First question, I guess, is just on the Florida investment. You know, I know there's a number of moving parts there and it's long tail, but it seems to be going well. Is there anything from the outside that you can point us to highlight maybe the momentum or trajectory of activity within that investment? And then, could there be opportunities to maybe monetize parts of that investment sooner than later, just as progress moves forward, you know, with other parts of the investment?

Wes Edens: Yes, the Florida investment is a very exciting group of investments right now and you should think of it in really three main buckets. There's an industrial real estate bucket where we own about a third of the developable land, Dade and Broward County. We built a couple of million square feet of space and that has just been a, you know -- a top, decile performer from a real estate perspective. There's the freight railway, which is the old Flagler railway, which at the lows did about $65 million, $60 million in EBITDA. Our forecasts for that business now are about $115 to $120 million, with a lot of growth embedded, that's been a huge recovery and we think that the sky is literally the limit there. And then thirdly, and this is something you've heard a lot about in the news, is that we are very, very advanced in the process of building a passenger train to go from Miami to Orlando, which is really two distinct opportunities. One is the train itself, which I think the owner who rides the Acela and tries to get a reservation understands how productive that could be, and two is the real estate that you'll build at the site, the transit oriented development, the POD development. That's some of the best real estate prospects on the planet. And so you'll be on a great site in downtown Miami, you know, sites at our major stops in West Palm Beach and Fort Lauderdale.

You'll see a lot of visibility around that really on a daily basis if you go and just punch in All Aboard Florida. There's a whole raft of things that have been written about it. We have pretty much started the construction on the southern portion of it. We're in the final stages of environmental permitting for the northern section and our goal is to have that railway operational by the end of 2016. So it's a very here and now thing.

If you look at the size of that investment, again, we've owned it for a number of years, but I think the prospects for it are extremely bright.

Devin Ryan: Thank you. That's really helpful. And just thinking about the timing around the -- if there's any modernizations, I'm assuming that would create a mark, but then, you know, are there other events that occur that could create a revaluation in certain pieces that could drive the value higher there?

Wes Edens: Yes, I think that one of the first things we will ask is that upon the final permitting and when we've got that business very much under construction, I think we'll look at other capitalization options. That I think would be a very substantial revaluation and perhaps liquidity event. We'll see how that all works out. The real estate itself we're building and selling as we go along and that -- as I said, that has been a real home run in terms of how that has all gone.

But the probably most visibility you'll see, you know, from the passenger side will be All Aboard Florida. There's debt -- there's high-yield debt that's outstanding, so you can look at the freight railway as well and you can see the performance of that, but that's also been, you know, just terrific.

Devin Ryan: Great. Thanks. Moving on just to Credit -- so recent press reports have suggested that you guys would be looking to raise over $4 billion of new capital, so just wanted to make sure that I'm clear. You know, with that, I guess, reflected in the comments that you made about credit fund raising and is that capital tied to a change in the opportunity set or new opportunities or is it more just a function of the life of prior funds?

Pete Briger: Well, there's been information reported out in the press. We have to be careful about talking about fundraising. The fundraising environment in any cyclical investment tends to be countercyclical. When you can raise the money, the opportunity is not necessarily apparent and I would say that today the opportunity for credit investing is non-apparent to non-existent. And so the fundraising that we're doing today in Credit is a function of the environment today being expensive and frothy and hopefully down the road it will lead to a higher default rate or a higher default environment, which will also hopefully be correlated with a high perception of risk environment.

Of all the things that are out there, I'm a little bit concerned that the perception of risk out there will not necessarily be correlated with a higher default environment simply because we're living in a world with regulated financial system. It is so highly regulated and has difficulty of taking actual risk. So typically, a high default rate environment coupled with a regulated financial system that has been in trouble has led to a good investing environment. So, you know, I think from our standpoint, if we are able to raise a significant amount of capital, it will be for future opportunities as they come as the system gets shocked.

Devin Ryan: OK. Terrific. Thank you. And then just lastly, this may be tough to answer, but, you know, I know you guys see a lot of value in the stock, based on the comments and just given the momentum that currently appears to be in the business today relative to maybe where the stock is trading and then the view that there's $4 of cash investments and net carry, and then layer on top of that the insider ownership tier that is already quite high… is there a point where you just contemplate taking the company private just given what seems to be a big discount in the public markets relative to the intrinsic value or is it really, you know, that brand awareness and liquidity are that important, so that would even, you know, be in the consideration?

Randy Nardone: Hi, it's Randy. Well, we haven't been shy about buying back stock in the past and when the opportunity presents itself, we'll definitely think about that. It's obviously something at these valuations as I alluded to in my opening remarks, it does seem like a pretty good value. So it is something we think about and, you know, as we think about many things going forward.

Devin Ryan: Great. Thank you.

Operator: Your next question comes from Bulent Ozcan with RBC.

Bulent Ozcan: Hi. Good morning. I had a question regarding your Next Generation funds. How should we think about the investment process there in terms of, you know, sourcing deals, investing and do you think there could be some, you know, conflicts of interest, you know, with your current funds that you have in place? And it sort of made me think it could make it harder for you to raise capital from your existing LPs if you have a fund that is in essence, you know, being floated and I guess where a growth retail customer base could have access to?

Wes Edens: Yes. Look, the investment base for our funds is varied, right? The traditional Private Equity fund investors are pension funds and large plans. The public, you know, permanent capital vehicles tend to be people that invest in public stock. Although, there clearly is some crossover. In the transportation infrastructure fund, which we are in the process of filing to take public, we have a number of what would be considered to be traditional private equity investors that have made investments in that vehicle, and I think that that's something that we will see accelerate with this because at the end of the day, the investment funds all have the same mandate. They want to generate best risk-adjusted returns. My view of the -- of the capital structure is I think it is Next Generation. I think you'll see a lot more of this. We've seen on the public equity side as well with the likes of Bill Ackerman's capital raise and other things you've seen in that sector, and so this is really more about getting the right capital structure to fit the investment profile and with that, I think you'll generate the right kinds of decisions, investment processes, etc., and I think that you'll see a lot of crossover between the different types of investors.

Bulent Ozcan: You think -- maybe it's a little bit of a weird question about -- if you think about the drawdown fund structure and given where you're heading to, do you think there is a lot of value left in the traditional drawdown fund structure, just given the easy access of capital when you need it if you have a permanent capital vehicle? It just makes it, in my view, a little bit harder to propose in essence a drawdown fund structure, which basically takes about 18 months or so to raise. And so I just want to get your perspective on that.

Wes Edens: Yes. Look, I think the drawdown fund structure is highly appropriate for certain kinds of investment strategies. You know, our credit funds are a good example for that. The investments we're making in Italy and the distressed side of where it's less about investing in a business and it's more about investing in a collection of assets or non-related assets, I think that the drawdown structure is the right capital structure. When you're investing in something that you think is a large addressable market, the business you're looking to build and hold indefinitely I think is not the right structure. I mean, we've all had experiences of investments… years ago we had a terrific experience in the cell tower business. We bought the debt and turned it into an equity investment of the cell tower company, grew it dramatically, loved the business, but in the current structure you're forced to liquidate that at some point in time. If I hadn't had a liquidating fund, that is a sector that we like a lot and I'd probably still own it today and I think that would've made people a lot more money. So there's not a one size fits all solution to it, but I do think that this Next Generation fund is something that you'll see not just from us, but quite likely from others and I think the people that use it appropriately will have a great deal of success and I intend to be one of those.

Bulent Ozcan: And maybe a final one on Logan Circle, I'm not sure if it is the right platform to ask this question about it. You know, just given, you know, the success in that business and given that you're not only getting any uptick in valuation based on having, you know, this business that's growing very, very fast, would there be any value of splitting off that business at some point? And in terms of the right-sizing the assets, what do you think would be a right assets under management before you were to do or consider anything like that?

Randy Nardone: It's Randy. We actually have done a bunch of spinoffs obviously in our permanent capital vehicles. So we're pretty familiar with the benefits of that one when the timing is right and when the situation is right. And so as I even alluded to earlier in terms of some of the other things we might be thinking about, that is certainly something we might consider over time.

Bulent Ozcan: OK. I appreciate it and thank you much for taking my questions. Thank you.

Gordon Runté: Thank you. Operator, I think we have time for two more questioners.

Operator: Your next question comes from Marc Irizarry with Goldman Sachs.

Marc Irizarry: Oh, great. Thanks. You know, Wes, obviously the permanent capital opportunity is significant in terms of the assets, but curious on structuring the fees and how you think about the management fees for the different vehicles and for the new vehicles going forward. As you grow the AUM, do you think that the sort of fee structures that you have today are going to be the same ones you'll have as you grow permanent capital assets? Thanks.

Randy Nardone: It's Randy. We might've lost Wes. I think the answer to the question is what's in place now is pretty indicative of what is likely to be the case going forward. I don't remember if Wes specifically outlined the typical fee structure in a permanent capital vehicle, but it's one and a half percent on equity. It's 25 percent over a hard hurdle as opposed to a kind of a look back hurdle, and typically the way we have structured the deals going forward of the permanent capital vehicles is management gets 10 percent options on capital raise struck at the capital raise price. So that bundle of economics is a -- you know, a kind of an up the middle permanent capital bundle of economics.

Marc Irizarry: OK. Great. Thanks.

Operator: We have time for one final question. Your last question comes from Daniel Fannon with Jefferies.

Daniel Fannon: Thanks. I was curious as to what the economics would look like once Fund V or when Fund V gets back into carry that $600 million gap. Is there any preferred economics after that or we should think about the PNL impact from gains and performance fees thereafter?

Dan Bass: That $600 million[2] is the hurdle until we earn 20 percent of every dollar in excess of that. So there is some catch-up layer where we earn a greater amount, 50 to 60 percent of every dollar once we exceed that, until we get to a point where we get 20 percent of all the profits.

Daniel Fannon: Great. And then one more if I could. I mean, I think it was mentioned earlier about the redemption trends and the Liquid funds. In the press release you talked about notices of $600 million or so, but only roughly $300 of that will be paid within one quarter. Why is there a lag effect associated with that in the Liquid strategies? And then, do the redemption notices in the press release today -- have they already been submitted for year-end or there's still time for those to come in?

[2] $495 million of gains are required to cross incentive income threshold as of October 30, 2014 (based on publicly traded portfolio company investment valuations), compared to $741 million as of September 30, 2014.

Randy Nardone: The Fortress Partners Fund is a fund inside the Liquid business. It has an annual redemption cycle, which comes in the middle of the year and then gets paid out the beginning of the following year. So half of those redemptions relate to that. Generally in the Liquid funds, they get paid out immediately after within a month or a quarter after they're received.

Daniel Fannon: Got it. And do those numbers reflect year-end redemption notices or is that number...

Dan Bass: The year-end redemption notices for the Partners fund are already done and past. So those numbers are final for the year-end. The Liquid funds we still have time.

Daniel Fannon: Great. Thank you.

Gordon Runté: OK. Thank you.

Randy Nardone: Great. Thanks, everyone, for joining us today. Altogether, a strong first three quarters of 2014 and we're tracking to a very strong full year. Momentum growth initiatives and embedded value we described, we see substantial upside in 2015 and the years ahead. Thanks, everyone.

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

**END**