

Perception and Reality

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Perception and Reality

What's the most reliable way to make money as an investor?

- Find situations where perception underestimates reality

Perception and Reality

Oaktree Perception #1 - - Oaktree isn't a growing company

Reality:

- We have raised roughly \$10 billion or more per year for six years in a row without acquisitions.
- AUM was \$36 billion at the end of 2006. Now it's \$81 billion.
- We feel these inflows were a reward from our clients for our able handling of the crisis.
- In recent years the inflows have been masked by outflows from liquidating closed-end funds. The lion's share of these outflows is behind us.

Oaktree does pursue growth (albeit not for its own sake or regardless of the realities of the market).

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Oaktree Perception #2 - - Oaktree is more interested in building value for its LPs than for shareholders

Reality:

- We aggressively add to AUM when the time is right.
- The founders dilute their ownership by distributing equity to employees for the purpose of strengthening our company.
- We've bought back stock at the low when we were traded on the GS TrUE platform and again this year on NYSE.
- The founding Principals are compensated almost exclusively through their shareholdings.

We build shareholder value best by protecting and enhancing our brand. It's what enabled us to raise large amounts in 2007 through 2009.

We build the brand through performance, risk control and integrity.

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Oaktree Perception #3 - - Oaktree's growth potential is limited

Reality:

- Our markets grow, permitting AUM growth.
- We have potential for market share growth within our markets.
- We have substantial opportunities for cross-selling in the U.S. and offshore fundraising.
- Cyclical fluctuations provide opportunities for asset expansion at unusual levels of profitability.
- Asia is essentially unexploited vis-a-vis our strategies.
- We add new strategies, as we have this year.
- We engage in strategic transactions (e.g., DoubleLine).

Our opportunities offer the potential to grow for many years.

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Oaktree Perception #4 - - Carry has little value

Reality:

- \$2.1 billion of gross carry (\$1.3 billion net of compensation expense) has been accrued on our funds' books (roughly \$8.50/share net). There's roughly \$5.00/share from Opps VIIb alone.
- We recognize and receive carry only after LPs have received their capital back and their preferred return. We call this point "crossover."
- On Opps VIIb, as of September 30, 2012, we would have had to distribute approximately \$12.3 billion to reach crossover. Last month, Opps VIIb reached \$11.1 billion distributed, leaving \$1.2 billion plus subsequent preferred return accruals to be distributed to reach crossover.
- We expect to reach crossover on Opps VIIb in 2013.
- Much of the taxable income relating to this carry has been recognized already. The best shelter against coming increases is for taxes to have been prepaid.

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Oaktree Perception #5 - - Carry is uncertain, unreliable and can evaporate

Reality:

- Under our funds' waterfall we recognize and receive carry only after our LPs have received their capital plus preferred return. Thus our risk of clawback is negligible.
- The assets that underlie our accumulated potential carry are more likely to be debt rather than equity, and thus less subject to drastic loss of value.
- Our debt in turn is more likely to be senior than subordinated.
- We did not have negative incentive income in 2008.

As of September 30, 2012, all of our 47 closed-end funds that were more than a year old had positive gross IRRs since inception and 35 were above the 8% net preferred return hurdle required to earn carry.

Oaktree has earned incentive income every year for the last 15 years and every quarter for the last 35 quarters.

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