Client Id: 77

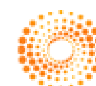
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OAK - Q2 2017 Oaktree Capital Group LLC Earnings Call

EVENT DATE/TIME: JULY 27, 2017 / 3:00PM GMT

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Andrea Williams *Oaktree Capital Group, LLC - Head of Corporate Communications & IR*

Daniel Levin *Oaktree Capital Group, LLC - CFO*

Jay Wintrob *Oaktree Capital Group, LLC - CEO*

CONFERENCE CALL PARTICIPANTS

Alexander Blostein *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Brian Bedell *Deutsche Bank AG, Research Division - Director in Equity Research*

Christopher Harris *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Craig Siegenthaler *Cr?dit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

Kenneth Worthington *JP Morgan Chase & Co, Research Division - MD*

Michael Cyprys *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Michael Carrier *BofA Merrill Lynch, Research Division - Director*

Robert Lee *Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst*

PRESENTATION

Operator

Welcome and thank you for joining the Oaktree Capital Group Second Quarter 2017 Conference Call. Today's conference call is being recorded. (Operator Instructions) Now I would like to introduce Andrea Williams, Oaktree's Head of Corporate Communications and Investor Relations, who will host today's conference call. Ms. Williams, you may begin.

Andrea Williams - *Oaktree Capital Group, LLC - Head of Corporate Communications & IR*

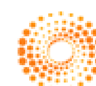
Thank you Laura. Welcome to all of you who have joined us today to discuss Oaktree's Second Quarter 2017 Financial Results. Our earnings release issued this morning detailing these results may be accessed through the Unitholders section of our website. Our speakers today are Oaktree's Chief Executive Officer, Jay Wintrob and Chief Financial Officer, Dan Levin. We'll be happy to take your questions following their prepared remarks.

Before we begin, I want to remind you that our comments today will include forward-looking statements reflecting our current views with respect to, among other things, our operations and financial performance. Important factors could cause actual results to differ, possibly materially, from those indicated in these statements. Please refer to our SEC filings for a discussion of these factors. We undertake no duty to update or revise any forward-looking statements. I'd also like to remind you that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Oaktree Fund.

Investors and others should take note that Oaktree uses the Unitholders section of its corporate website to announce material information. Accordingly, Oaktree encourages investors, the media, and others to review the information that it shares on its corporate website at ir.oaktreecapital.com.

During our call today, all revenue and expense data referred to will be non-GAAP financial measures unless we state otherwise. For a reconciliation of each non-GAAP financial measure to its most directly comparable GAAP financial measure, please refer to our earnings press release, which was furnished to the SEC today on Form 8-K and may be accessed through the Unitholders section of our website.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Today we announced a quarterly distribution of $1.31 per Class A unit, payable on August 11 to holders of record as of the close of business on August 7. Finally, we plan to file our second quarter Form 10-Q next week.

With that, I'll now turn the call over to Jay Wintrob.

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Thank you, Andrea, and hello everyone. Investors remained in a bullish mood in the second quarter, buoyed by a relatively resilient U.S. economy, low interest rates around the globe, a surfeit of liquidity driven by accommodative monetary policies, and low expected and actual levels of volatility.

The S&P 500, MSCI World and MSCI Emerging Markets indices were up 3%, 4% and 6% respectively in the quarter, and have appreciated 18%, 19% and 24% respectively over the last 12 months. Credit markets also continued to perform reasonably well in the second quarter, with most U.S. high yield bond indices up about 2% and the U.S. leveraged loan index posting a 0.8% return. Credit spreads have tightened both in general, and between lower rated and higher rated high yield bonds. Further, there weren't many defaults in the U.S. high yield bond market during the quarter. It's estimated that the trailing four quarter high yield default rate is about 2%, about half of the long-term average.

So in short, it's been a ?risk on? market for most of the year, and relatively high prices for almost every asset class reflect that. In this environment, we continue to focus on obtaining attractive financing for or selling mature assets in our portfolios, while exercising a high degree of caution in our security selection and deployment of dry powder.

Our strong investment performance in the second quarter and for the last 12 months was a reflection of our enduring investment philosophy at work. Oaktree closed-end funds returned an aggregate 4% gross in the second quarter and 19% over the last 12 months.

Closed-end credit strategies showed strength across the board, with Distressed Debt Opportunities funds returning 4% gross in 2Q and 20% for the last 12 months; European Private Debt returning 3% in 2Q and 13% for the last 12 months; Real Estate Opportunities returned 4% in the quarter and 10% for the last 12 months; and the Emerging Markets Opportunities returned 4% in the quarter and 28% for the last 12 months.

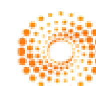
Investment performance also remained strong in our evergreen funds where in the last 12 months gross returns included 44% for our Value Equities strategy, 16% for Strategic Credit and 14% for Value Opportunities. Open-end strategy returns were strong in Q2 relative to their benchmarks but were more mixed on a 12 month basis. In our largest open-end strategy, U.S. High Yield, our composite return for the second quarter was ahead of our benchmark. Most importantly, we've been able to generate strong relative returns without sacrificing our standards regarding credit quality.

For the last 12 months, our historically high composite return of 10% has lagged the high yield index by approximately 150 basis points. We're not surprised to be trailing in a strong market, as doing so is consistent with our risk-controlled approach. As you know, we typically gain our edge when risk surfaces. This discipline is best illustrated by our 30-plus year, since inception gross return of 9% in high yield, which beats the U.S. high yield benchmark for that period by about a 100 basis points, and also by our low default rate. For example, there were 20 defaults in the U.S. High Yield market in the first half of 2017. Oaktree's High Yield portfolios suffered only one.

In addition to strong investment performance, we remained a net seller of assets in our incentive-creating, closed-end funds, where we distributed over $3.3 billion in the second quarter. These distributions led to our strong financial performance in the quarter, highlighted by record-high incentive income. For the second quarter, we delivered a 124% increase in distributable earnings and a 98% increase in adjusted net income over the same quarter a year ago.

In terms of fundraising, gross capital raised in the second quarter was $1.4 billion, bringing this figure for the last 12 months to $11.4 billion. Over the last 10 years, we've raised gross capital of $10 billion or more each year and we expect this year to be in line with that trend. Closed-end and evergreen funds currently in market include Real Estate Debt Fund II; Real Estate Income Fund; two dedicated infrastructure funds, one for transportation and one for energy; Middle Market Direct Lending; and Emerging Markets Debt Total Return.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

On the open-end front, we continue to make good progress marketing our Global Credit Fund, the multi-strategy credit fund led by CIO Bruce Karsh in concert with 10 other portfolio managers. We currently manage over $300 million in that strategy and have several sizeable mandates on the horizon.

As you may have seen, on July 14 we entered into an asset purchase agreement to become the new investment adviser to two Business Development Companies or BDCs; Fifth Street Finance Corp. and Fifth Street Senior Floating Rate Corp. These BDC portfolios fit nicely with Oaktree's expertise in direct lending, where we've put more than $10 billion to work across more than 200 investments since 2005.

Becoming the investment manager for these BDCs will increase our fee generating-AUM by approximately $2.4 billion and instantly create a scaled BDC platform, capable of supplying middle market borrowers with credit solutions spanning first lien, second lien, unitranche and mezzanine debt. Our initial efforts will concentrate on repositioning each BDC portfolio with a focus on protecting principal through minimizing credit losses, leading to more consistent results.

We'll use Oaktree's loan origination capabilities and underwriting expertise to improve the BDCs' results over time. Following receipt of requisite stockholder and board approvals, the two BDCs, which will be renamed Oaktree Specialty Lending Corp. and Oaktree Strategic Income Corp. will be managed primarily by current Oaktree investment professionals, and Edgar Lee, Portfolio Manager of the Strategic Credit strategy, will become the CEO of both entities.

The BDCs' permanent capital will provide an attractive stream of management fees, and the transaction will be mildly accretive to earnings immediately upon close, which we expect to occur sometime during the fourth quarter of this year. More importantly, over time we believe Oaktree's management of these two BDCs will enhance our reputation as a go-to source of capital for middle-market borrowers, and will allow us to be even more competitive as a provider of all forms of private credit solutions, large and small, to middle-market companies.

In sum, I'm very proud of how we are performing for our clients, given the lofty valuations and high degree of uncertainty we see across our investment universe. Investment performance is solid; our pace of capital deployment is steady though conservative; and we are focused on harvesting assets. And as we still sit on near-record levels of dry powder, $9 billion of which is in Opportunities Fund Xb, we're cognizant that the opportunity set for such a large fund has yet to materialize.

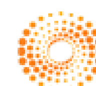
We continue to see a benign default environment, and as we wait for an uptick in the supply of distressed debt, our teams are currently researching opportunities in industries experiencing some stress or competitive issues, such as retail, software, healthcare and telecommunications. Furthermore, we're monitoring legacy leveraged buyouts that have not refinanced or otherwise fixed their capital structures, and we're re-engaging on several energy-related opportunities as small cracks in that sector are starting to rematerialize. Thus, as we mentioned last quarter, our current estimate for the official inception of the investment period for Opps Xb, and thus the commencement of management fees on committed capital, is sometime in 2018.

Before I wrap up, I'd like to alert you to Howard Marks's newest memo published yesterday. It's entitled "There They Go Again . . . Again", and you can find it in the Insights section of our website. In a very cautionary framework, Howard describes the current market environment as one characterized by a high degree of uncertainty, low prospective investment returns, high asset prices and pro-risk behavior on the part of investors. Markets normally respond to elevated uncertainty with lower asset prices and compensatorily higher returns, but that's not what we are encountering today. We're living in a low-return, high-risk world and an environment where most investors are happy to bear risk.

Against this backdrop, Oaktree will continue to follow its 2012 mantra "move forward, but with caution" and given today's conditions, with even more caution than in the recent past. If one is going to invest at times like this, investment professionalism, knowing how to bear risk intelligently, striving for return while keeping an eagle-eye on the potential adverse consequences, is the most important thing.

With that, I'll hand it over to Dan to cover the financials in more detail.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

Thanks, Jay, and good morning everyone. The second quarter's financial results were exceptional, reflecting successful harvesting of assets in our closed-end funds as well as solid investment performance across all fund categories. Adjusted net income and distributable earnings both reached their highest levels in 4 years, driven by record incentive income.

Our financial results are highlighted by a number of the themes that Jay mentioned: 1, solid investment results driving growth in net accrued incentives over the past 12 months despite elevated closed-end fund distributions leading to the recognition of over $775 million of incentive income; 2, continued near-record levels of dry powder resulting from the discipline and patience of our investment teams; and 3, pressure on our management fees year-over-year due to substantial realization activity combined with a slower pace of capital deployment.

Management fees in the second quarter declined 6% from the same period a year ago. This decline was driven by our closed-end funds where we have been a net seller of assets for the last 12 months.

Moving to fee-related earnings, for the second quarter FRE declined 17% from the same period a year ago, primarily as a result of the lower management fees I just mentioned. Compensation and benefits and G&A were relatively flat year-over-year, reflecting continued cost consciousness. Cost discipline continues to be a focus of ours as we look to drive greater efficiency across our business, while continuing to make prudent long-term decisions to invest in new products, distribution and technology in order to facilitate profitable growth in the future.

We achieved record incentive income of $457 million in the second quarter, driven primarily by incentive income from Oaktree Principal Opportunities Fund IV. As I previewed on last quarter's call, we successfully closed the sale of AdvancePierre to Tyson Foods in June, which enabled POF IV to start paying incentives under our European-style waterfall.

POF IV incentive income benefited from the catch-up layer, in which 80% of a distribution goes to Oaktree and 20% to the investors until Oaktree has received 20% of the overall profits. The overall ratio of incentive income compensation expense to incentive income was 59% in the quarter driven by POF IV's higher compensation rate than most of our funds. This is the result of incremental incentive points having been issued over the life of the fund due to senior investment professional changes and our desire to ensure alignment of the new managers' interest with those of the LPs.

While the record incentive income resulted in a decline in our net accrued incentives balance from the end of the first quarter, that figure grew by 12% on a year-over-year basis to $867 million or $5.55 per Operating Group unit. The diversity of this pool of potential incentive income continues to be notable, as 38% is represented by Distressed Debt, 34% by Control Investing, and 21% by Real Estate. I would also highlight the growing balance of gross accrued evergreen incentives, which stood at $26 million as of June 30. We recognize most of our evergreen incentive income on an annual basis in the fourth quarter.

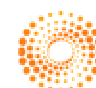
I'll move on to investment income, which was $61 million for the quarter, a 27% increase from the second quarter of 2016. This growth is primarily driven by our funds' investment performance and our 20% ownership stake in DoubleLine Capital. With approximately $109 billion of AUM as of June 30, DoubleLine contributed $19 million to investment income in the second quarter and $69 million over the last 12 months, 16% higher than the previous 12 month period.

For the second quarter we generated $282 million or $1.73 per Class A unit of adjusted net income, and $282 million of distributable earnings, our highest quarterly amounts since the second quarter of 2013. We declared a distribution of $1.31 per Class A unit in the quarter, bringing our total distribution over the last 12 months to $3.30, up 65% over the previous 12 month period.

Moving to the current quarter, based on our funds' distributions to date, our fund-related investment income proceeds are $16 million and net incentive income is $13 million. While incentive income can be hard to predict, my current view is that we may not have a significant amount of additional net incentive income in the quarter beyond what I just mentioned.

In closing, we are pleased with our strong results in the second quarter and feel well-positioned for the future, with ample dry powder, a healthy net accrued incentives balance, and increased scale in direct lending upon the closing of the Fifth Street transaction.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

With that, we?re happy to take your questions. So Laura, please open the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question will come from Michael Carrier of Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch, Research Division - Director*

Thanks guys. Hey Jay, maybe first one just on the growth outlook. I think, when we look at the gross fundraising, it continues to be strong on the net side just given some of the redemptions, it's been more muted. Just wanted to get a sense on, when you think about the outlook, what you guys are working on in terms of new funds in the market. I think you mentioned some of them. I mean, some of them are still small so I think they can scale up. And then on the other side, some of the pressures on the redemption side, maybe the outlook there in terms of -- if you expect some of that to start to subside over time?

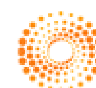
Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Thanks, Mike. We're quite optimistic about the future and the growth outlook. Let me try to run through a few items and also comment on your mention of redemptions. So, as I mentioned, there is a number of closed-end funds that are currently in market for Oaktree, I won't go through and repeat the list again. And then open-end also of course with something of an emphasis on growing the Global Credit Fund, which indirectly grows all the constituent open-end strategies that are part of it. So, in addition to those fundraises in markets, which I think is our most immediate and best opportunity to grow as there are appropriate investment opportunities. We'll be -- obviously we're working on our pipeline for next year. And as we look forward, in all likelihood, we'll see the raise of our Special Situations Fund II, as our current Special Situations Fund I is about 75% invested at this point. Our Emerging Market Opportunities Fund II, which is also about 75% invested currently. In all likelihood, our Power Opportunities Fund V, the current on-the-run fund, Power IV, is also well invested. And we'll probably be taking a look at a bespoke structured credit fund. Right now the structured credit strategy is one of the strategies inside of our Global Credit Fund, but we think there may be an opportunity to raise some bespoke money there. So there are a number of other opportunities that we can see down the pipe for closed-end funds or evergreen funds and then there's things that are -- I don't know if they're further out -- but a little bit more in formation that we are also exploring. And I'm quite enthused that across that product lineup as well as all of the in-market funds depending on the opportunities to deploy, the growth there is going to come. You commented on redemption pressures and there's really two components to that, I want to make sure I'm addressing your question. As Dan emphasized, probably the biggest, if you want to call it pressure, is our own desire to harvest existing investments, where we see that it?s the optimal time to do that. And as you know, we've been a net seller when you aggregate all of the deployment and sales activity across our closed-end fund area for a few quarters. And if the market environment continues, that may continue also. And so that's really something we're doing intentionally. In terms of some of the outflows in the open-end strategies, I think it really breaks into two pieces. For the most part it's Oaktree clients who bought into our risk-controlled investment strategy, seeing a lot of what we're seeing which is historically high prices and historically low perspective returns, who are simply reallocating out of some of the higher risk open-end asset classes that we manage into other asset classes, not to other managers. Probably the one exception to that where we've had some performance issues and we've mentioned that in prior quarters is our, in particular, U.S. Convertible Bond Strategy and we have activities and actions underway to try to address that. And a lot of that, of course, is because our approach to convertibles investing is to focus more on the bond component of converts, less on the equity component, that's -- we're not weighted as the index is on equity surrogates. Just by way of example, the average price of the bonds in our portfolio is about 110, and for the index it's about 140. And that's simply the way we manage that portfolio. So I'm not overly concerned at all about the outflows in the open-end strategies. I think it's more a reflection of our clients reallocating to lower risk assets.

Operator

Our next question will come from Kenneth Worthington of JP Morgan.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Kenneth Worthington - *JP Morgan Chase & Co, Research Division - MD*

Hi, good morning. Just on the Fifth Street transaction, can you give us a better sense of the incremental costs that you'll need to undertake to manage those funds? I think you mentioned, you expect the transaction to be accretive in 4Q, but just more color on what you'll need to undertake to manage those. And then, on the other side of it, what opportunity do you think you have after you stabilize the portfolios to take the capabilities and maybe either further grow them directly or further grow the presence in retail? Like, how can you take the Fifth Street introduction and take it to a new level within Oaktree?

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

So why don't I take the first part of your question which is around cost. So I think the way to think about the financial impact generally is, it will be immediately accretive. We are leveraging our infrastructure, which means it will be under our Strategic Credit investment team and the non-investment side will benefit from the scale of our platform. That said, we will be augmenting our team with both investment and non-investment professionals. So we're working through the integration plan as we speak, but you should assume that there will be incremental costs that we incur, but given the fact we're leveraging our infrastructure, that the margin should be higher than our normal margins of our business.

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Yes and Ken, if I could just add in. Because I think your question was really the question we asked. So everything is going to depend upon our ability to do a good job of stabilizing and repositioning the portfolios inside of the two BDCs. And that's what we'll focus on in the immediate future. And I believe using our current platform with Edgar Lee as our CEO, his team and other resources across Oaktree, and some additional resources we will add, I truly believe we will do a good job over the next couple of years in that effort. Assuming we do that, we're very hopeful that the prices of the two BDC stocks will rise to NAV or above and if we can accomplish that that will give us the opportunity during certain market windows to potentially raise more equity and that is one avenue of growth for these BDCs. Again, it all starts with good investment performance. Having said that, I also think that by virtue of having this BDC platform, we will be able to present ourselves to the borrower community and intermediaries who represent borrowers as an even more full service, diversified, capable provider of financings of all types and that it should increase the overall deal flow we see at Oaktree. That will be beneficial not only to these BDCs, but also to our other investment strategies that do direct lending or invest in other ways in private debt. And as you know, the market is very big. I think the total U.S. direct lending market is probably close to $400 billion and so we see a lot of opportunities there. And then the third thing I'd mention, probably more speculative, but not unimportant, is the total market cap for publicly traded BDCs is around $30 billion. And it's very possible in the future depending on the credit cycle and circumstances that there may be other opportunities to add to the platform from that existing pool of BDCs. Again very situational, very specific, but I think once we have our platform, we'll be better positioned to look at any opportunities that develop.

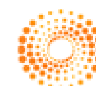
Operator

Next we have a question from Alex Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Great. Hey and good morning everybody. So couple of questions for you guys, just around some of the accrued incentive dynamic across the franchise. And I guess, when we look at the fund table, and again thanks, super helpful disclosure there, as always. So if I look at Fund VIIb, there is about $200 million of accruals, and that number really hasn't moved around a ton and it just seems like there hasn't been a lot of realization, that is a fairly old fund. What, I guess, is holding that back? When should we see some of that amount come through the P&L? It's obviously one of the more chunky accruals that's through the waterfall for you guys. And then Dan, sort of as a follow-up to that, as we look out at other incentives fees that are sort of on the cusp of coming through the P&L, what sort of the comp rate associated with it? Obviously, I understand that current quarter was high at 59%. But on the go-forward basis, from what you see, is it still around 50%?

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

Yes, so thanks Alex. On Opp VIIb -- if you think about that fund, that was a very large crisis era fund. We're right now at the stage where we have fewer holdings that are lumpier. And so, what I think you'll see is, you'll see larger realization events, more sporadic than you did earlier in that fund's life as you remember in 2011, 2012, 2013, 2014, when that fund was early in its life. So I think the pattern is pretty typical for a fund of its stage. In terms of the outlook, it is an older fund, so gradually over the next couple of years, you should see that convert into incentive income, but it will be, at this point, dependent on a few of the holdings and our strategies and ability to maximize the value once it achieves the intrinsic value or more. In terms of -- just more broadly, comp ratios and how do we think about comp ratio, I think the best guidance I can give for how to think about comp ratios of future funds is the blended comp ratio on our accrued incentives, which is 51%. So POF IV is a little bit of an outlier at close to 60%, but it does vary by fund and so you will see some variability, but that 51% is probably a good amount to look at. And then in terms of the outlook for incentive income, the other comment I'd make is, Real Estate Fund V, that fund was not paying, so it wasn't in the 27% of net accrued incentives that as of 6/30 we're currently paying. But that fund this month did have a distribution that got it into paying. So that was part of the $13 million of net incentive income I mentioned in my prepared remarks.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Got it. Yes, so that one is going through the 80% catch-up I guess for the time being. Yes, alright, thanks very much.

Operator

Your next question comes from Craig Siegenthaler of Credit Suisse.

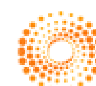
Craig Siegenthaler - *Cr?dit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

Thanks, good morning. After the Blackstone news this quarter, and Jay, just given your strong background at SunAmerica and AIG, can you update us on your thoughts behind the opportunities of gaining access to the long duration liability stream of a life insurance or annuity business? And also, if current pricing really is the main hurdle that is preventing Oaktree from really forming this sort of permanent capital vehicle today?

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Thanks Craig. So on your first question, I guess what I'd say is, what we would focus on at Oaktree is consistent with our principles and one of our core principles is that we focus on less efficient markets. The significant majority of assets in a normal or typical life insurance company are asset classes that we currently don't manage at Oaktree and aren't currently high up on our strategic agenda. Without getting into specifics, the question is how much time and effort to focus on that sleeve of a life company that might be invested in the asset classes that would be of interest to us. Certainly we wouldn't have any opposition to managing those assets and in fact, we have close to 80 insurance company clients currently and they comprise about 9% of our AUM at Oaktree. And we see that as an area of future growth for us. We have a lot of long-term, very loyal clients that we?re appreciative over that. But the notion of acquiring a company directly or through a fund for the specific purpose of entering into an effective affiliated transaction to manage the portfolio, to get at that relatively small sleeve of assets that are in less efficient markets, I understand the strategy and I understand that it could be an attractive economic proposition, and at some point it may be for Oaktree but I wouldn't say it's high on our strategic agenda. But for others and from what I've observed, I think I've seen -- those transactions could be very smart and economically very successful. The second question you asked I think was about the -- what's holding us back from forming further permanent capital vehicles and was it the current pricing environment? Is that correct?

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Craig Siegenthaler - *Cr?dit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

You know actually, it was really just for the insurance side of it and what I was asking is, is pricing today what's holding you back from forming it and it sounds like from your response to my first question, the answer is no.

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

I think that's fair. I think that it's not a matter of that being at the top of our strategic agenda and just prices are too high to execute at levels we're comfortable with. In a different environment, things may be different, but the main thing is what I described earlier.

Operator

And next, we have a question from Brian Bedell of Deutsche Bank.

Brian Bedell - *Deutsche Bank AG, Research Division - Director in Equity Research*

Great, thanks for taking my question. Just to go back to the fundraising environment, I think Jay mentioned you should easily be able to do $10 billion growth fundraise for this year, I think you're almost halfway there. So that would imply a better fundraising outcome in the second half versus the first half. But can you talk about how you think about the Global Credit Fund and the pace of fundraising versus the six months that you mentioned in the beginning. And then, also for -- as we move into 2018 and 2019, I realize that Fifth Street is -- it's more of a long-term endeavor, but how are you thinking about the middle market direct lending platform across the franchise as maybe sort of a mix of assets over the next say two to three years?

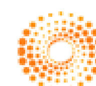
Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Thanks Brian. I think there were three questions or comments and let me respond to each one of them. As I sit here today, I wouldn't be surprised if the back half of our year is a stronger fundraise period in terms of the absolute gross than the first half. It will be what it will be. You know the timing of closed-end fundraises, in particular, is an art not a science and when we're in fundraising mode, we're not trying to time closes to specific quarter or half-year periods. You mentioned the Global Credit Fund, that's been a focus area and from where I sit, I do see an acceleration of fundraising for that open-end strategy in the quarters and year ahead. Again, can't give you the specific timing, but as I mentioned there are several meaningful mandates that we are working on and as time goes on -- I think we only started fundraising about five months ago in earnest. One of the reasons, in fact, why Bruce isn't with us this morning is because he's in Europe, part of the reason of which is fundraising. But we do see that to be accelerating over time. And as far as the middle market platform, three things; two of which I've talked about in the past. So Oaktree is a middle market lender, is in the direct lending business that we mentioned putting out roughly $10 billion in that category since '05 across our Mezz funds, Strategic Credit funds and other strategies at Oaktree. Secondly, we launched about four months ago, marketing of two bespoke middle market direct lending funds, one with a certain amount of leverage and one without and I expect to be reporting in the back half of the year on initial closes for those funds. Those are institutional raises. And then third, as you mentioned, I won't repeat my answer on the BDC acquisition. I think it will be mildly accretive initially, but I think most importantly, if we do a good job stabilizing and repositioning that portfolio, improving those stock prices to be at or above NAV, that will open the door for us to a lot of additional opportunities for growing those BDCs, for other BDC M&A activity or frankly, just for driving more loan origination into Oaktree generally, and allocating those to the appropriate pools of capital.

Operator

Next question comes from Michael Cyprys of Morgan Stanley.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Hi, good morning. Thanks for taking the question. Just wanted to circle back on fee-related earnings that ticked up nicely in the quarter and also just on the margin as well. Just how should we think about that from here over the next several quarters before the Opps Xb turns on?

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

Thanks Michael. So I'll take it a couple of different ways. I think we've mentioned on prior calls, excluding the Fifth Street transaction, I think the guidance continues to be appropriate, which is I wouldn't expect a meaningful step up in our management fees booked prior to Opps Xb starting its investment period. And so, from a fee-related earnings perspective that will correspond accordingly as we do continue -- expenses were flat this year-over-year quarter and likely we?ll continue to be cost conscious but also invest in our business. So I think that my comments about management fees probably also applies to fee-related earnings. As you think about fee-related earnings, I would highlight and remind everyone that we don't include DoubleLine in our fee-related earnings and so DoubleLine did contribute $69 million of investment income over the last 12 months and that income is really predominantly related to the management fees of DoubleLine. So very similar income stream.

Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

And then, how do we think about the Fifth Street coming online and impacting that FRE trajectory?

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

Yes. So I think as we said, Fifth Street will be mildly accretive to both our adjusted net income and our fee-related earnings. So that should enhance a little bit our fee-related earnings outlook.

Operator

Next question comes from Chris Harris of Well Fargo.

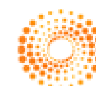
Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Hey, thanks guys. Another one on Fifth Street, obviously there has been a lot of losses over there and so when you guys sort of looked at doing this deal, what gives you the confidence that the rest of the assets will work out and that's the first part of the question. The second part is, you mentioned wanting to stabilize the portfolio and just wondering if you can elaborate on that. I'm not sure exactly what that means, does that mean potentially that you guys would be putting in more capital to support the portfolio companies if some stuff went awry or does that mean something else? So maybe you can provide a little bit of color there, that would be great.

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

Sure, Chris. Let me take a shot at that one. So, one of the benefits of being involved in effect a public auction or an auction of a public company, which this was, is full access to due diligence. It's one of the reasons you choose sometimes to pursue growth that way. So you can assume and we certainly did that a lot of time was spent diligencing the portfolio. And I would emphasize that we're very realistic about the portfolio. It is what it is. The statistics are available publicly, but there's a higher incidence of non-accrual paper in those portfolios, especially in FSC than I would say on average across the BDC universe. We understand that. We think we've built into our acquisition model an appropriate look at the portfolio, and over time I think we'll be proven right and so, we go into this with our eyes wide open and understanding that there are things that we're going to need to do. There is going to be some work-out situations in some cases and I think that Oaktree with our lineage in distressed debt and really in particular and our comfort level frankly in dealing with work-out situations, that's one of the things that attracted us to this situation, frankly. And I think that the condition of the portfolio was very much reflected in the value of the stocks. So we will use all of our tools that we've used in

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

other strategies here, tools used in middle market direct lending generally in working out loans, in working with borrowers and will be very realistic. And so, when I talk about stabilizing the portfolio and restructuring it, what I'm really talking about is, over time trying to bring down that level of non-accruals and there is lot of different tools to deploy to do that and to deliver, as I mentioned in my prepared remarks, more consistent results. And I think if we do those two things, I think the stocks will reflect that and that the stocks will trade closer to the NAV of the portfolios. Your comment about putting in more capital, that is not part of our plans going forward. So I just want to be clear about that.

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

Yes, and just to echo what Jay said and this is really what we do all the time here at Oaktree, we invest in credit assets, some which are performing, some which are non-performing and we figure out how to optimize returns. So this is really kind of the sweet spot of what we do and we think we're kind of uniquely positioned to maximize the value of these portfolios.

Jay Wintrob - *Oaktree Capital Group, LLC - CEO*

I would comment, I mean, I don't want to try to avoid the short term, but if you followed the trading prices of the two BDC stocks, since the -- there was an initial Wall Street Journal article that leaked the transaction. I think FSC is up about 35% and FSFR is up around 10% and you know that's a good beginning.

Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Indeed it is, thank you.

Operator

Next question comes from Rob Lee of KBW.

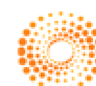
Robert Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst*

Thanks and good morning guys. One question on DoubleLine. Just kind of curious -- I mean obviously the business has grown -- their business has grown tremendously since you've made your fortuitous investment in them. But it does seem like some of their strategies are -- that they are kind of even edging in some of their things towards things that you guys do maybe you?re starting to at the margin bump into each other a little bit. I mean is there any issues around that as it relates your relationship with them? And then, as part of your financial arrangement, are there any kind of put or call option as it relates to your 20% stake?

Daniel Levin - *Oaktree Capital Group, LLC - CFO*

So as you said, DoubleLine just continues to grow really well and they're diversifying their business across products and distribution channels. And you're right, as they broaden their products, they may touch on some of the things that we do and the markets we're in are big markets -- we've got plenty of competitors and if they overlap with what we do, we don't think that they concern -- in fact, it's just the sign of the health of their business and their ability to generate attractive returns across asset classes. So, they will continue to execute their plan and likely to diversify their business over time and leverage their capabilities into a broader set of opportunities. And as a 20% equity owner, we're delighted about that. In terms of a put/call right, there's nothing contractual around competition or anything else that would trigger a put or call. So I think our general philosophy here is, we're delighted about the financial impact that DoubleLine has on our business. We're delighted about their continued growth and we think the future is quite bright for them.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Operator

And this concludes our question and answer session. I would like to turn the conference back over to Andrea Williams for any closing remarks.

Andrea Williams - *Oaktree Capital Group, LLC - Head of Corporate Communications & IR*

Thanks everyone for joining us for our second quarter 2017 earnings conference call. A replay of the conference call will be available for 30 days on Oaktree's website in the Unitholders section or by dialing 877-344-7529 in the U.S. and 1-412-317-0088 outside of the U.S. The replay access code for this conference call is 10109904. Thank you very much.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

DISCLAIMER

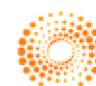
Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.

©2017 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS