

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2017

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 001-35500

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**Oaktree Capital Group, LLC**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**26-0174894**

(I.R.S. Employer  
Identification Number)

**333 South Grand Avenue, 28th Floor**

**Los Angeles, CA 90071**

**Telephone: (213) 830-6300**

(Address, zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2017, there were 64,185,410 Class A units and 92,030,445 Class B units of the registrant outstanding.

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## FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), which reflect our current views with respect to, among other things, our future results of operations and financial performance. In some cases, you can identify forward-looking statements by words such as “anticipate,” “approximately,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “seek,” “should,” “will” and “would” or the negative version of these words or other comparable or similar words. These statements identify prospective information. Important factors could cause actual results to differ, possibly materially, from those indicated in these statements. Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Such forward-looking statements are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity, including, but not limited to, changes in our anticipated revenue and income, which are inherently volatile; changes in the value of our investments; the pace of our raising of new funds; changes in assets under management; the timing and receipt of, and impact of taxes on, carried interest; distributions from and liquidation of our existing funds; the amount and timing of distributions on our Class A units; changes in our operating or other expenses; the degree to which we encounter competition; and general political, economic and market conditions. The factors listed in the item captioned “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 (“annual report”) filed with the U.S. Securities and Exchange Commission (“SEC”) on March 1, 2017, which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov), provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in our forward-looking statements.

Forward-looking statements speak only as of the date of this quarterly report. Except as required by law, we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

In this quarterly report, unless the context otherwise requires:

“Oaktree,” “OCG,” “we,” “us,” “our” or “our company” refers to Oaktree Capital Group, LLC and, where applicable, its subsidiaries and affiliates.

“Oaktree Operating Group,” or “Operating Group,” refers collectively to the entities in which we have a minority economic interest and indirect control that either (i) act as or control the general partners and investment advisers of our funds or (ii) hold interests in other entities or investments generating income for us.

“OCGH” refers to Oaktree Capital Group Holdings, L.P., a Delaware limited partnership, which holds an interest in the Oaktree Operating Group and all of our Class B units.

“OCGH unitholders” refers collectively to our senior executives, current and former employees and certain other investors who hold interests in the Oaktree Operating Group through OCGH.

“assets under management,” or “AUM,” generally refers to the assets we manage and equals the NAV (as defined below) of the assets we manage, the leverage on which management fees are charged, the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments and the aggregate par value of collateral assets and principal cash held by our collateralized loan obligation vehicles (“CLOs”). Our AUM amounts include AUM for which we charge no management fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics described below may not be directly comparable to the AUM metrics of other investment managers.

- “management fee-generating assets under management,” or “management fee-generating AUM,” is a forward-looking metric and reflects the beginning AUM on which we will earn management fees in the following quarter, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Measures—Assets Under Management—Management Fee-generating Assets Under Management.”
- “incentive-creating assets under management,” or “incentive-creating AUM,” refers to the AUM that may eventually produce incentive income, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Measures—Assets Under Management—Incentive-creating Assets Under Management.”

“consolidated funds” refers to the funds and CLOs that Oaktree is required to consolidate as of the applicable reporting date.

“funds” refers to investment funds and, where applicable, CLOs and separate accounts that are managed by us or our subsidiaries.

“initial public offering” refers to the listing of our Class A units on the New York Stock Exchange on April 12, 2012 whereby Oaktree sold 7,888,864 Class A units and selling unitholders sold 954,159 Class A units.

“Intermediate Holding Companies” collectively refers to the subsidiaries wholly owned by us.

“net asset value,” or “NAV,” refers to the value of all the assets of a fund (including cash and accrued interest and dividends) less all liabilities of the fund (including accrued expenses and any reserves established by us, in our discretion, for contingent liabilities) without reduction for accrued incentives (fund level) because they are reflected in the partners’ capital of the fund.

“Relevant Benchmark” refers, with respect to:

- our U.S. High Yield Bond strategy, to the Citigroup U.S. High Yield Cash-Pay Capped Index;
- our Global High Yield Bond strategy, to an Oaktree custom global high yield index that represents 60% BofA Merrill Lynch High Yield Master II Constrained Index and 40% BofA Merrill Lynch Global Non-Financial High Yield European Issuers 3% Constrained, ex-Russia Index – USD Hedged from inception through December 31, 2012, and the BofA Merrill Lynch Non-Financial Developed Markets High Yield Constrained Index – USD Hedged thereafter;
- our European High Yield Bond strategy, to the BofA Merrill Lynch Global Non-Financial High Yield European Issuers excluding Russia 3% Constrained Index (USD Hedged);

- our U.S. Senior Loan strategy (with the exception of the closed-end funds), to the Credit Suisse Leveraged Loan Index;
- our European Senior Loan strategy, to the Credit Suisse Western European Leveraged Loan Index (EUR Hedged);
- our U.S. Convertible Securities strategy, to an Oaktree custom convertible index that represents the Credit Suisse Convertible Securities Index from inception through December 31, 1999, the Goldman Sachs/Bloomberg Convertible 100 Index from January 1, 2000 through June 30, 2004, and the BofA Merrill Lynch All U.S. Convertibles Index thereafter;
- our non-U.S. Convertible Securities strategy, to an Oaktree custom non-U.S. convertible index that represents the JACI Global ex-U.S. (Local) Index from inception through December 31, 2014 and the Thomson Reuters Global Focus ex-U.S. (USD hedged) Index thereafter;
- our High Income Convertible Securities strategy, to the Citigroup U.S. High Yield Market Index; and
- our Emerging Markets Equities strategy, to the Morgan Stanley Capital International Emerging Markets Index (Net).

“senior executives” refers collectively to Howard S. Marks, Bruce A. Karsh, Jay S. Wintrob, John B. Frank and Sheldon M. Stone.

“Sharpe Ratio” refers to a metric used to calculate risk-adjusted return. The Sharpe Ratio is the ratio of excess return to volatility, with excess return defined as the return above that of a riskless asset (based on the three-month U.S. Treasury bill, or for our European Senior Loan strategy, the Euro Overnight Index Average) divided by the standard deviation of such return. A higher Sharpe Ratio indicates a return that is higher than would be expected for the level of risk compared to the risk-free rate.

This quarterly report and its contents do not constitute and should not be construed as an offer of securities of any Oaktree funds.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Financial Condition (Unaudited)**  
**(\$ in thousands)**

	As of	
	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash-equivalents .....	\$ 600,104	\$ 291,470
U.S. Treasury and time deposit securities .....	555,008	757,578
Corporate investments (includes \$99,389 and \$107,591 measured at fair value as of June 30, 2017 and December 31, 2016, respectively) .....	1,016,078	1,123,732
Due from affiliates .....	132,943	208,643
Deferred tax assets .....	405,030	404,614
Other assets .....	239,849	237,466
<i>Assets of consolidated funds:</i>		
Cash and cash-equivalents .....	601,698	667,730
Investments, at fair value .....	4,739,686	3,808,234
Dividends and interest receivable .....	14,837	15,297
Due from brokers .....	65,711	98,746
Receivable for securities sold .....	142,276	34,932
Derivative assets, at fair value .....	478	357
Other assets .....	703	311
Total assets .....	<u>\$ 8,514,401</u>	<u>\$ 7,649,110</u>
<b>Liabilities and Unitholders' Capital</b>		
Liabilities:		
Accrued compensation expense .....	\$ 181,355	\$ 284,510
Accounts payable, accrued expenses and other liabilities .....	161,961	150,596
Due to affiliates .....	341,741	346,543
Debt obligations .....	746,336	745,897
<i>Liabilities of consolidated funds:</i>		
Accounts payable, accrued expenses and other liabilities .....	24,256	11,689
Payables for securities purchased .....	537,691	291,182
Securities sold short, at fair value .....	81,086	41,016
Derivative liabilities, at fair value .....	772	1,086
Distributions payable .....	3,545	9,207
Borrowings under credit facilities .....	738,550	483,956
Debt obligations of CLOs .....	3,100,029	3,054,210
Total liabilities .....	<u>5,917,322</u>	<u>5,419,892</u>
Commitments and contingencies (Note 15)		
Non-controlling redeemable interests in consolidated funds .....	497,406	344,047
Unitholders' capital:		
Class A units, no par value, unlimited units authorized, 64,185,410 and 63,032,276 units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively .....	—	—
Class B units, no par value, unlimited units authorized, 92,043,490 and 91,758,067 units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively .....	—	—
Paid-in capital .....	763,466	749,618
Retained earnings .....	141,143	54,494
Accumulated other comprehensive income (loss) .....	(476)	1,793
Class A unitholders' capital .....	904,133	805,905
Non-controlling interests in consolidated subsidiaries .....	1,166,788	1,050,319
Non-controlling interests in consolidated funds .....	28,752	28,947
Total unitholders' capital .....	<u>2,099,673</u>	<u>1,885,171</u>
Total liabilities and unitholders' capital .....	<u>\$ 8,514,401</u>	<u>\$ 7,649,110</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Operations (Unaudited)**  
(in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Management fees .....	\$ 180,028	\$ 195,015	\$ 360,956	\$ 393,568
Incentive income .....	454,027	87,701	562,684	143,638
Total revenues .....	<u>634,055</u>	<u>282,716</u>	<u>923,640</u>	<u>537,206</u>
<b>Expenses:</b>				
Compensation and benefits .....	(102,002)	(103,002)	(206,489)	(211,407)
Equity-based compensation .....	(14,748)	(14,726)	(29,701)	(28,622)
Incentive income compensation .....	(266,556)	(35,461)	(301,164)	(45,268)
Total compensation and benefits expense.....	<u>(383,306)</u>	<u>(153,189)</u>	<u>(537,354)</u>	<u>(285,297)</u>
General and administrative .....	(34,388)	(32,949)	(66,607)	(80,780)
Depreciation and amortization .....	(3,004)	(4,048)	(6,828)	(8,209)
Consolidated fund expenses .....	(2,728)	(1,462)	(5,199)	(2,546)
Total expenses .....	<u>(423,426)</u>	<u>(191,648)</u>	<u>(615,988)</u>	<u>(376,832)</u>
<b>Other income (loss):</b>				
Interest expense .....	(44,251)	(26,730)	(93,021)	(54,435)
Interest and dividend income .....	51,914	37,138	99,874	73,408
Net realized gain (loss) on consolidated funds' investments..	235	6,682	(1,637)	10,083
Net change in unrealized appreciation (depreciation) on consolidated funds' investments .....	28,453	(5,301)	53,131	(25,973)
Investment income .....	49,106	41,000	99,557	70,447
Other income (expense), net .....	4,898	5,548	9,561	11,349
Total other income .....	<u>90,355</u>	<u>58,337</u>	<u>167,465</u>	<u>84,879</u>
Income before income taxes .....	300,984	149,405	475,117	245,253
Income taxes .....	(5,541)	(8,571)	(17,843)	(21,251)
Net income .....	<u>295,443</u>	<u>140,834</u>	<u>457,274</u>	<u>224,002</u>
<b>Less:</b>				
Net income attributable to non-controlling interests in consolidated funds .....	(3,861)	(7,319)	(13,553)	(2,375)
Net income attributable to non-controlling interests in consolidated subsidiaries .....	<u>(174,258)</u>	<u>(84,468)</u>	<u>(271,482)</u>	<u>(144,502)</u>
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 117,324</u>	<u>\$ 49,047</u>	<u>\$ 172,239</u>	<u>\$ 77,125</u>
Distributions declared per Class A unit .....	<u>\$ 0.71</u>	<u>\$ 0.55</u>	<u>\$ 1.34</u>	<u>\$ 1.02</u>
<b>Net income per unit (basic and diluted):</b>				
Net income per Class A unit .....	<u>\$ 1.83</u>	<u>\$ 0.78</u>	<u>\$ 2.71</u>	<u>\$ 1.24</u>
Weighted average number of Class A units outstanding.....	<u>64,193</u>	<u>62,617</u>	<u>63,611</u>	<u>62,256</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**  
(in thousands)

	Oaktree Capital Group, LLC	Non- controlling Interests in Consolidated Subsidiaries	Non- controlling Interests in Consolidated Funds	Total
<b><u>Three Months Ended June 30, 2017</u></b>				
Net income .....	\$ 117,324	\$ 174,258	\$ 3,861	\$ 295,443
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments .....	(396)	(601)	—	(997)
Other comprehensive loss, net of tax .....	(396)	(601)	—	(997)
Total comprehensive income .....	116,928	173,657	3,861	294,446
Less: Comprehensive income attributable to non-controlling interests .....	—	(173,657)	(3,861)	(177,518)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	<u>\$ 116,928</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 116,928</u>
<b><u>Three Months Ended June 30, 2016</u></b>				
Net income .....	\$ 49,047	\$ 84,468	\$ 7,319	\$ 140,834
Other comprehensive income, net of tax:				
Foreign currency translation adjustments .....	1,004	1,484	—	2,488
Unrealized gain on interest-rate swap designated as cash-flow hedge .....	87	128	—	215
Other comprehensive income, net of tax .....	1,091	1,612	—	2,703
Total comprehensive income .....	50,138	86,080	7,319	143,537
Less: Comprehensive income attributable to non-controlling interests .....	—	(86,080)	(7,319)	(93,399)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	<u>\$ 50,138</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50,138</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Comprehensive Income (Unaudited) — (Continued)**  
(in thousands)

	Oaktree Capital Group, LLC	Non- controlling Interests in Consolidated Subsidiaries	Non- controlling Interests in Consolidated Funds	Total
<b>Six Months Ended June 30, 2017</b>				
Net income .....	\$ 172,239	\$ 271,482	\$ 13,553	\$ 457,274
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments .....	(2,293)	(3,361)	—	(5,654)
Unrealized gain on interest-rate swap designated as cash- flow hedge .....	24	36	—	60
Other comprehensive loss, net of tax .....	(2,269)	(3,325)	—	(5,594)
Total comprehensive income .....	169,970	268,157	13,553	451,680
Less: Comprehensive income attributable to non-controlling interests .....	—	(268,157)	(13,553)	(281,710)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 169,970	\$ —	\$ —	\$ 169,970
<b>Six Months Ended June 30, 2016</b>				
Net income .....	\$ 77,125	\$ 144,502	\$ 2,375	\$ 224,002
Other comprehensive income, net of tax:				
Foreign currency translation adjustments .....	1,446	2,135	—	3,581
Unrealized gain on interest-rate swap designated as cash- flow hedge .....	79	116	—	195
Other comprehensive income, net of tax .....	1,525	2,251	—	3,776
Total comprehensive income .....	78,650	146,753	2,375	227,778
Less: Comprehensive income attributable to non-controlling interests .....	—	(146,753)	(2,375)	(149,128)
Comprehensive income attributable to Oaktree Capital Group, LLC .....	\$ 78,650	\$ —	\$ —	\$ 78,650

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income .....	\$ 457,274	\$ 224,002
Adjustments to reconcile net income to net cash used in operating activities:		
Investment income .....	(99,557)	(70,447)
Depreciation and amortization .....	6,828	8,209
Equity-based compensation .....	29,701	28,622
Net realized and unrealized (gain) loss from consolidated funds' investments .....	(51,494)	15,890
Amortization (accretion) of original issue and market discount of consolidated funds' investments, net .....	(1,925)	(4,860)
Income distributions from corporate investments in funds and companies .....	95,987	52,154
Other non-cash items .....	1,033	608
Cash flows due to changes in operating assets and liabilities:		
Decrease in other assets .....	9,647	20,175
Increase in net due to affiliates .....	70,898	116
Decrease in accrued compensation expense .....	(103,821)	(150,490)
Increase in accounts payable, accrued expenses and other liabilities .....	10,862	25,590
<i>Cash flows due to changes in operating assets and liabilities of consolidated funds:</i>		
(Increase) decrease in dividends and interest receivable .....	1,600	(1,622)
Decrease in due from brokers .....	33,035	20,693
Increase in receivables for securities sold .....	(104,783)	(75,113)
Increase in other assets .....	(390)	(1,346)
Increase in accounts payable, accrued expenses and other liabilities .....	7,289	5,479
Increase in payables for securities purchased .....	230,157	184,080
Purchases of securities .....	(2,623,756)	(1,570,440)
Proceeds from maturities and sales of securities .....	1,957,708	1,048,193
Net cash used in operating activities .....	(73,707)	(240,507)
Cash flows from investing activities:		
Purchases of U.S. Treasury and time deposit securities .....	(413,029)	(473,115)
Proceeds from maturities and sales of U.S. Treasury and time deposit securities .....	615,599	450,007
Corporate investments in funds and companies .....	(22,799)	(37,228)
Distributions and proceeds from corporate investments in funds and companies .....	133,653	132,159
Purchases of fixed assets .....	(14,030)	(4,159)
Net cash provided by investing activities .....	299,394	67,664

(continued)

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Cash Flows (Unaudited) — (Continued)**  
(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from financing activities:		
Payment of debt issuance costs .....	\$ —	\$ (801)
Repayment of debt obligations .....	—	(50,000)
Repurchase and cancellation of units .....	(9,697)	(10,315)
Distributions to Class A unitholders .....	(85,942)	(63,547)
Distributions to OCGH unitholders .....	(154,484)	(116,193)
Distributions to non-controlling interests .....	(2,342)	(3,515)
<i>Cash flows from financing activities of consolidated funds:</i>		
Contributions from non-controlling interests .....	95,932	64,321
Distributions to non-controlling interests .....	(32,802)	(23,598)
Proceeds from debt obligations issued by CLOs .....	1,208,863	426,292
Payment of debt issuance costs .....	(3,706)	(7,974)
Repayment on debt obligations issued by CLOs .....	(1,243,433)	—
Borrowings on credit facilities .....	254,000	129,885
Repayments on credit facilities .....	(25,207)	(165,849)
Net cash provided by financing activities .....	<u>1,182</u>	<u>178,706</u>
Effect of exchange rate changes on cash .....	15,733	6,379
Net increase in cash and cash-equivalents .....	242,602	12,242
Cash and cash-equivalents, beginning balance .....	959,200	3,331,102
Change in cash and cash-equivalents from adoption of accounting guidance .....	—	(2,712,190)
Cash and cash-equivalents, ending balance .....	<u>\$ 1,201,802</u>	<u>\$ 631,154</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Condensed Consolidated Statements of Changes in Unitholders' Capital (Unaudited)**  
(in thousands)

Oaktree Capital Group, LLC								
	Class A Units	Class B Units	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests in Consolidated Subsidiaries	Non-controlling Interests in Consolidated Funds	Total Unitholders' Capital
Unitholders' capital as of December 31, 2016 .....	63,032	91,758	\$ 749,618	\$ 54,494	\$ 1,793	\$ 1,050,319	\$ 28,947	\$ 1,885,171
Activity for the six months ended June 30, 2017:								
Cumulative-effect adjustment from adoption of accounting guidance .....	—	—	(352)	352	—	—	—	—
Issuance of units .....	1,350	496	—	—	—	—	—	—
Cancellation of units associated with forfeitures .....	(17)	—	—	—	—	—	—	—
Cancellation of units .....	—	(140)	—	—	—	—	—	—
Repurchase and cancellation of units .....	(180)	(71)	(7,194)	—	—	(2,503)	—	(9,697)
Equity reallocation between controlling and non-controlling interests .....	—	—	9,499	—	—	(9,499)	—	—
Capital increase related to equity-based compensation .....	—	—	11,895	—	—	17,140	—	29,035
Distributions declared .....	—	—	—	(85,942)	—	(156,826)	(1,145)	(243,913)
Net income .....	—	—	—	172,239	—	271,482	950	444,671
Foreign currency translation adjustment, net of tax .....	—	—	—	—	(2,293)	(3,361)	—	(5,654)
Unrealized gain on interest-rate swap designated as cash-flow hedge, net of tax .....	—	—	—	—	24	36	—	60
Unitholders' capital as of June 30, 2017 .....	<u>64,185</u>	<u>92,043</u>	<u>\$ 763,466</u>	<u>\$ 141,143</u>	<u>\$ (476)</u>	<u>\$ 1,166,788</u>	<u>\$ 28,752</u>	<u>\$ 2,099,673</u>
Unitholders' capital as of December 31, 2015 .....	61,970	91,938	\$ 735,166	\$ —	\$ (1,216)	\$ 1,043,930	\$ 30,214	\$ 1,808,094
Activity for the six months ended June 30, 2016:								
Cumulative-effect adjustment from adoption of accounting guidance .....	—	—	(12,912)	—	—	(109,709)	—	(122,621)
Issuance of units .....	897	630	—	—	—	—	—	—
Cancellation of units associated with forfeitures .....	(41)	(111)	—	—	—	—	—	—
Cancellation of units .....	—	(110)	—	—	—	—	—	—
Repurchase and cancellation of units .....	(223)	(6)	(10,089)	—	—	(226)	—	(10,315)
Equity reallocation between controlling and non-controlling interests .....	—	—	8,126	—	—	(8,126)	—	—
Capital increase related to equity-based compensation .....	—	—	11,455	—	—	16,958	—	28,413
Distributions declared .....	—	—	(1,350)	(62,197)	—	(119,708)	(1,679)	(184,934)
Net income .....	—	—	—	77,125	—	144,502	386	222,013
Foreign currency translation adjustment, net of tax .....	—	—	—	—	1,446	2,135	—	3,581
Unrealized gain on interest-rate swap designated as cash-flow hedge, net of tax .....	—	—	—	—	79	116	—	195
Unitholders' capital as of June 30, 2016 .....	<u>62,603</u>	<u>92,341</u>	<u>\$ 730,396</u>	<u>\$ 14,928</u>	<u>\$ 309</u>	<u>\$ 969,872</u>	<u>\$ 28,921</u>	<u>\$ 1,744,426</u>

*Please see accompanying notes to condensed consolidated financial statements.*

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
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## **1. ORGANIZATION AND BASIS OF PRESENTATION**

Oaktree Capital Group, LLC (together with its subsidiaries, “Oaktree” or the “Company”) is a leader among global investment managers specializing in alternative investments. Oaktree emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in distressed debt, corporate debt (including high yield debt and senior loans), control investing, convertible securities, real estate and listed equities. Funds managed by Oaktree (the “Oaktree funds”) include commingled funds, separate accounts and collateralized loan obligation vehicles (“CLOs”). Commingled funds include open-end and closed-end limited partnerships in which the Company makes an investment and for which it serves as the general partner. CLOs are structured finance vehicles in which the Company typically makes an investment and for which it serves as collateral manager.

Oaktree Capital Group, LLC is a Delaware limited liability company that was formed on April 13, 2007. The Company is owned by its Class A and Class B unitholders. Oaktree Capital Group Holdings GP, LLC acts as the Company’s manager and is the general partner of Oaktree Capital Group Holdings, L.P. (“OCGH”), which owns 100% of the Company’s outstanding Class B units. OCGH is owned by the Company’s senior executives, current and former employees, and certain other investors (collectively, the “OCGH unitholders”). The Company’s operations are conducted through a group of operating entities collectively referred to as the “Oaktree Operating Group.” OCGH has a direct economic interest in the Oaktree Operating Group and the Company has an indirect economic interest in the Oaktree Operating Group. The interests in the Oaktree Operating Group are referred to as the “Oaktree Operating Group units.” An Oaktree Operating Group unit is not a separate legal interest but represents one limited partnership interest in each of the Oaktree Operating Group entities. Class A units are entitled to one vote per unit. Class B units are entitled to ten votes per unit and do not represent an economic interest in the Company. The number of Class B units held by OCGH increases or decreases in response to corresponding changes in OCGH’s economic interest in the Oaktree Operating Group; consequently, the OCGH unitholders’ economic interest in the Oaktree Operating Group is reflected within non-controlling interests in consolidated subsidiaries in the accompanying condensed consolidated financial statements.

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries and entities in which the Company is deemed to have a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. Certain of the Oaktree funds consolidated by the Company are investment companies that follow a specialized basis of accounting established by GAAP. All intercompany transactions and balances have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on March 1, 2017.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Accounting Policies of the Company**

#### ***Consolidation***

The Company consolidates entities in which it has a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. A limited partnership or similar entity is a variable interest entity (“VIE”) if the unaffiliated limited partners do not have substantive kick-out or participating rights. Most of the Oaktree funds are VIEs because they have not granted unaffiliated limited partners substantive kick-out or participating rights. The Company consolidates those VIEs in which it is the primary beneficiary. An entity is deemed to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Company holds a variable interest is a VIE and (b) whether the Company’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance-based fees), would give it a controlling financial interest. A decision maker’s fee arrangement is not considered a variable interest if it is compensation for services provided, commensurate with the level of effort required to provide those services and part of a compensation arrangement that includes only terms, conditions or amounts that are customarily present in arrangements for similar services negotiated at arm’s length (“at-market”), and the decision maker does not hold any other variable interests that absorb more than an insignificant amount of the potential VIE’s expected residual returns.

The Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly by the Company or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Company is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Company, affiliates of the Company or third parties) or amendments to the governing documents of the respective Oaktree funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. The Company does not consolidate most of the Oaktree funds because it is not the primary beneficiary, as its fee arrangements are not deemed to be variable interests and it does not hold any other interests in those funds that are considered to be more than insignificant. Please see note 3 for more information regarding both consolidated and unconsolidated VIEs. For entities that are not VIEs, consolidation is evaluated through a majority voting interest model.

“Consolidated funds” refers to Oaktree-managed funds and CLOs that Oaktree is required to consolidate. When funds or CLOs are consolidated, the Company reflects the assets, liabilities, revenues, expenses and cash flows of the funds or CLOs on a gross basis, and the majority of the economic interests in those funds or CLOs, which are held by third-party investors, are reflected as non-controlling interests in consolidated funds or debt obligations of CLOs in the condensed consolidated financial statements. All of the revenues earned by the Company as investment manager of the consolidated funds are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by third-party investors, the consolidation of a fund does not impact net income or loss attributable to the Company.

Certain entities in which the Company has the ability to exert significant influence, including unconsolidated Oaktree funds for which the Company acts as general partner, are accounted for under the equity method of accounting.

#### ***Non-controlling Redeemable Interests in Consolidated Funds***

The Company records non-controlling interests to reflect the economic interests of the unaffiliated limited partners. These interests are presented as non-controlling redeemable interests in consolidated funds within the condensed consolidated statements of financial condition, outside of the permanent capital section. Limited partners in open-end and evergreen funds generally have the right to withdraw their capital, subject to the terms of

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the respective limited partnership agreements, over periods ranging from one month to three years. While limited partners in consolidated closed-end funds generally have not been granted redemption rights, these limited partners do have withdrawal or redemption rights in certain limited circumstances that are beyond the control of the Company, such as instances in which retaining the limited partnership interest could cause the limited partner to violate a law, regulation or rule.

The allocation of net income or loss to non-controlling redeemable interests in consolidated funds is based on the relative ownership interests of the unaffiliated limited partners after the consideration of contractual arrangements that govern allocations of income or loss. At the consolidated level, potential incentives are allocated to non-controlling redeemable interests in consolidated funds until such incentives become allocable to the Company under the substantive contractual terms of the limited partnership agreements of the funds.

***Non-controlling Interests in Consolidated Funds***

Non-controlling interests in consolidated funds represent the equity interests held by third-party investors in CLOs that had not yet priced as of the respective period end. All non-controlling interests in those CLOs are attributed a share of income or loss arising from the respective CLO based on the relative ownership interests of third-party investors after consideration of contractual arrangements that govern allocations of income or loss. Investors in those CLOs are generally unable to redeem their interests until the respective CLO liquidates, is called or otherwise terminates.

***Non-controlling Interests in Consolidated Subsidiaries***

Non-controlling interests in consolidated subsidiaries reflect the portion of unitholders' capital attributable to OCGH unitholders ("OCGH non-controlling interest") and third parties. All non-controlling interests in consolidated subsidiaries are attributed a share of income or loss in the respective consolidated subsidiary based on the relative economic interests of the OCGH unitholders or third parties after consideration of contractual arrangements that govern allocations of income or loss. Please see note 11 for more information.

***Goodwill and Intangibles***

Goodwill represents the excess of cost over the fair value of identifiable net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead is tested for impairment annually in the fourth quarter of each fiscal year, or more frequently when events or circumstances indicate that impairment may have occurred.

The Company's identifiable intangible assets acquired in business combinations primarily relate to contractual rights to earn future management fees and incentive income. Finite-lived intangible assets are amortized over their estimated useful lives, which range from three to seven years, and are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable.

***Fair Value of Financial Instruments***

GAAP establishes a hierarchical disclosure framework that prioritizes the inputs used in measuring financial instruments at fair value into three levels based on their market observability. Market price observability is affected by a number of factors, such as the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available quoted prices from an active market or for which fair value can be measured based on actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment inherent in measuring fair value.

Financial assets and liabilities measured and reported at fair value are classified as follows:

- *Level I* – Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement. The types of investments in Level I include exchange-traded equities, debt and derivatives with quoted prices.
- *Level II* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are directly or indirectly observable. Level II inputs include interest rates, yield curves, volatilities,

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prepayment risks, loss severities, credit risks and default rates. The types of investments in Level II generally include corporate bonds and loans, government and agency securities, less liquid and restricted equity investments, over-the-counter traded derivatives, debt obligations of consolidated CLOs, and other investments where the fair value is based on observable inputs.

- *Level III* – Valuations for which one or more significant inputs are unobservable. These inputs reflect the Company's assessment of the assumptions that market participants use to value the investment based on the best available information. Level III inputs include prices of quoted securities in markets for which there are few transactions, less public information exists or prices vary among brokered market makers. The types of investments in Level III include non-publicly traded equity, debt, real estate and derivatives.

In some instances, the inputs used to value an instrument may fall into multiple levels of the fair-value hierarchy. In such instances, the instrument's level within the fair-value hierarchy is based on the lowest of the three levels (with Level III being the lowest) that is significant to the fair-value measurement. The Company's assessment of the significance of an input requires judgment and considers factors specific to the instrument. Transfers of assets into or out of each fair value hierarchy level as a result of changes in the observability of the inputs used in measuring fair value are accounted for as of the beginning of the reporting period. Transfers resulting from a specific event, such as a reorganization or restructuring, are accounted for as of the date of the event that caused the transfer.

In the absence of observable market prices, the Company values Level III investments using valuation methodologies applied on a consistent basis. The quarterly valuation process for Level III investments begins with each portfolio company, property or security being valued by the investment and/or valuation teams. With the exception of open-end funds, all unquoted Level III investment values are reviewed and approved by (i) the Company's valuation officer, who is independent of the investment teams, (ii) a designated investment professional of each strategy and (iii) for a substantial majority of unquoted Level III holdings as measured by market value, a valuation committee of the respective strategy. For open-end funds, unquoted Level III investment values are reviewed and approved by the Company's valuation officer. For certain investments, the valuation process also includes a review by independent valuation parties, at least annually, to determine whether the fair values determined by management are reasonable. Results of the valuation process are evaluated each quarter, including an assessment of whether the underlying calculations should be adjusted or recalibrated. In connection with this process, the Company periodically evaluates changes in fair-value measurements for reasonableness, considering items such as industry trends, general economic and market conditions, and factors specific to the investment.

Certain assets are valued using prices obtained from brokers or pricing vendors. The Company seeks to obtain at least one quote directly from a broker making a market for the asset and one price from a pricing vendor for the specific or similar securities. These investments may be classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions. The Company evaluates the prices obtained from brokers or pricing vendors based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonably estimated. The Company also performs back-testing of valuation information obtained from brokers and pricing vendors against actual prices received in transactions. In addition to ongoing monitoring and back-testing, the Company performs due diligence procedures surrounding pricing vendors to understand their methodology and controls to support their use in the valuation process.

#### ***Fair Value Option***

The Company has elected the fair value option for certain corporate investments that otherwise would not have reflected unrealized gains and losses in current-period earnings. Such election is irrevocable and is applied on an investment-by-investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of investment income in the condensed consolidated statements of operations. The Company's accounting for these investments is similar to its accounting for investments held by the consolidated funds at fair value, and the valuation methods are consistent with those used to determine the fair value of the consolidated funds' investments.

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The Company has elected the fair value option for the financial assets and financial liabilities of its consolidated CLOs. The assets and liabilities of CLOs are primarily reflected within the investments, at fair value and within the debt obligations of CLOs line items in the condensed consolidated statements of financial condition. The Company's accounting for CLO assets is similar to its accounting for its funds with respect to both carrying investments held by CLOs at fair value and the valuation methods used to determine the fair value of those investments. The fair value of CLO liabilities are measured as the fair value of CLO assets less the sum of (a) the fair value of any beneficial interests held by the Company and (b) the carrying value of any beneficial interests that represent compensation for services. Realized gains or losses and changes in the fair value of CLO assets, respectively, are included in net realized gain on consolidated funds' investments and net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Interest income of CLOs is included in interest and dividend income, and interest expense and other expenses, respectively, are included in interest expense and consolidated fund expenses in the condensed consolidated statements of operations. Changes in the fair value of a CLO's financial liabilities in accordance with the CLO measurement guidance are included in net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Please see notes 5 and 9 for more information.

### **Accounting Policies of Consolidated Funds**

#### ***Investments, at Fair Value***

The consolidated funds include investment limited partnerships and CLOs that reflect their investments, including majority-owned and controlled investments, at fair value. The Company has retained the specialized investment company accounting guidance under GAAP for investment limited partnerships with respect to consolidated investments and has elected the fair value option for the financial assets of CLOs. Thus, the consolidated investments are reflected in the condensed consolidated statements of financial condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Non-publicly traded debt and equity securities and other securities or instruments for which reliable market quotations are not available are valued by management using valuation methodologies applied on a consistent basis. These securities may initially be valued at the acquisition price as the best indicator of fair value. The Company reviews the significant unobservable inputs, valuations of comparable investments and other similar transactions for investments valued at acquisition price to determine whether another valuation methodology should be utilized. Subsequent valuations will depend on the facts and circumstances known as of the valuation date and the application of valuation methodologies as further described below under "—Non-publicly Traded Equity and Real Estate Investments." The fair value may also be based on a pending transaction expected to close after the valuation date.

#### ***Exchange-traded Investments***

Securities listed on one or more national securities exchanges are valued at their last reported sales price on the date of valuation. If no sale occurred on the valuation date, the security is valued at the mean of the last "bid" and "ask" prices on the valuation date. Securities that are not readily marketable due to legal restrictions that may limit or restrict transferability are generally valued at a discount from quoted market prices. The discount would reflect the amount market participants would require due to the risk relating to the inability to access a public market for the security for the specified period and would vary depending on the nature and duration of the restriction and the perceived risk and volatility of the underlying securities. Securities with longer duration restrictions or higher volatility are generally valued at a higher discount. Such discounts are generally estimated based on put option models or an analysis of market studies. Instances where the Company has applied discounts to quoted prices of restricted listed securities have been infrequent. The impact of such discounts is not material to the Company's condensed consolidated statements of financial condition and results of operations for all periods presented.

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*Credit-oriented Investments (including Real Estate Loan Portfolios)*

Investments in corporate and government debt which are not listed or admitted to trading on any securities exchange are valued at the mean of the last bid and ask prices on the valuation date based on quotations supplied by recognized quotation services or by reputable broker-dealers.

The market-yield approach is considered in the valuation of non-publicly traded debt securities, utilizing expected future cash flows and discounted using estimated current market rates. Discounted cash-flow calculations may be adjusted to reflect current market conditions and/or the perceived credit risk of the borrower. Consideration is also given to a borrower's ability to meet principal and interest obligations; this may include an evaluation of collateral and/or the underlying value of the borrower utilizing techniques described below under "—Non-publicly Traded Equity and Real Estate Investments."

*Non-publicly Traded Equity and Real Estate Investments*

The fair value of equity and real estate investments is determined using a cost, market or income approach. The cost approach is based on the current cost of reproducing a real estate investment less deterioration and functional and economic obsolescence. The market approach utilizes valuations of comparable public companies and transactions, and generally seeks to establish the enterprise value of the portfolio company or investment property using a market-multiple methodology. This approach takes into account the financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company or investment property. Consideration also may be given to factors such as acquisition price of the security or investment property, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company or investment property relative to its comparable companies or properties, industry trends, general economic and market conditions, and others deemed relevant. The income approach is typically a discounted cash-flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount and capitalization rates, capital structure, terminal values, and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions.

The valuation of securities may be impacted by expectations of investors' receptiveness to a public offering of the securities, the size of the holding of the securities and any associated control, information with respect to transactions or offers for the securities (including the transaction pursuant to which the investment was made and the elapsed time from the date of the investment to the valuation date), and applicable restrictions on the transferability of the securities.

These valuation methodologies involve a significant degree of management judgment. Accordingly, valuations by the Company do not necessarily represent the amounts that eventually may be realized from sales or other dispositions of investments. Fair values may differ from the values that would have been used had a ready market for the investment existed, and the differences could be material to the condensed consolidated financial statements.

**Recent Accounting Developments**

In January 2017, the Financial Accounting Standards Board ("FASB") issued guidance to simplify the accounting for goodwill impairments by eliminating step 2 of the goodwill impairment test. This step currently requires an entity to perform a hypothetical purchase price allocation to derive the implied fair value of goodwill. Under the new guidance, an impairment loss is recognized if the carrying value of a reporting unit exceeds its fair value. The impairment loss would equal the amount of that excess, limited to the total amount of goodwill. All other goodwill impairment guidance remains largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance is effective for the Company in the first quarter of 2020 on a prospective basis, with early adoption permitted. The Company expects that adoption of this guidance will not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued guidance that amends the definition of a business. The guidance provides a framework to help determine whether a transaction involves an asset or a business. In general, if

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substantially all of the gross assets acquired or disposed of are concentrated in a single identifiable asset or group of similar identifiable assets, the transaction is deemed to not involve a business. This framework is expected to reduce the number of transactions that an entity must further evaluate to determine whether they are business combinations or asset acquisitions. The definition of a business may also affect other aspects of accounting, such as goodwill impairment or consolidation. The Company adopted this guidance in the second quarter of 2017, with no impact on its consolidated financial statements.

In October 2016, the FASB amended the consolidation guidance with respect to a single decision maker's evaluation of interests held through related parties that are under common control when it is determining whether it is the primary beneficiary of a VIE. Under the guidance, a reporting entity considers its indirect economic interests in a VIE held through related parties that are under common control on a proportionate basis, consistent with the way it would evaluate its indirect economic interests held through related parties that are not under common control. Previously, a reporting entity's indirect economic interests in a VIE held through related parties that are under common control were considered to be the equivalent of direct interests in their entirety. The Company adopted the guidance in the first quarter of 2017, with no impact on its consolidated financial statements.

In August 2016, the FASB issued guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amendments add to or clarify guidance on a number of cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, distributions received from equity-method investees and beneficial interests in securitization transactions. The guidance is effective for the Company in the first quarter of 2018, generally on a retrospective basis, with early adoption permitted. The Company expects that adoption of this guidance will not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued guidance that affects several aspects of accounting for employee share-based payment awards. The amendments relate to the accounting for forfeitures, income taxes at settlement, the classification of income taxes in the statement of cash flows and net settlements for withholding tax. The amendment with respect to forfeitures allows an entity to make an accounting policy election either to estimate the number of forfeitures expected to occur or to account for forfeitures when they occur. The amendments related to income taxes require (a) all excess tax benefits and deficiencies related to share-based payment transactions to be recognized through the provision for income taxes in the consolidated statement of operations and (b) excess tax benefits related to share-based payment transactions to be presented as operating activities in the consolidated statement of cash flows with employee taxes paid classified as a financing activity. The amendments related to net settlements allow an employer to withhold shares upon settlement of an award to satisfy the employer's tax withholding requirement in an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award. The Company adopted the guidance in the first quarter of 2017. With respect to forfeitures, the Company made an accounting policy election to account for forfeitures when they occur and to adopt the guidance on a modified retrospective basis, which resulted in a \$0.4 million increase to retained earnings and a corresponding \$0.4 million decrease to paid in capital. Amendments relating to income taxes were adopted on a prospective basis. As a result, prior periods have not been recast. Amendments relating to net settlements were adopted on a modified retrospective basis, with no impact to the consolidated financial statements.

In March 2016, the FASB issued guidance eliminating the requirement to retroactively apply the equity method of accounting when a reporting entity obtains significant influence over an investment (e.g., due to an increase in ownership) that previously had been accounted for under the cost basis or at fair value. Instead, the reporting entity would be required to apply the equity method of accounting prospectively from the date significant influence was obtained. The cost of the additional interest in the investee, if any, should be added to the current basis of the investment. The amendment also provides guidance for available-for-sale investments that become eligible for the equity method of accounting. In those cases, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings as of the date the investment initially qualifies for the use of the equity method. The Company adopted the guidance in the first quarter of 2017 on a prospective basis, with no impact on its consolidated financial statements.

In February 2016, the FASB issued guidance that will require a lessee to recognize a lease asset and a lease liability for most of its operating leases. Under current GAAP, operating leases are not recognized by a lessee

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in its statements of financial position. In general, the new asset and liability will each equal the present value of lease payments. The guidance does not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee. The Company expects to adopt the guidance in the first quarter of 2019 under the modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period presented. The Company does not expect that adoption will have a material impact on its consolidated statements of operations because all of its leases are currently classified as operating leases, which under the guidance will continue to be recognized as expense on a straight-line basis. The adoption, however, will result in a significant gross up in total assets and total liabilities on the Company's consolidated statements of financial position. As of June 30, 2017, the Company's minimum lease payments under lease obligations aggregated \$138.0 million.

In January 2016, the FASB issued guidance that changes the classification and measurement of financial instruments and amends certain disclosure requirements associated with the fair value of financial instruments. The amendments revise the accounting related to (a) the classification and measurement of equity investments and (b) the presentation of certain fair value changes for financial liabilities measured at fair value. Specifically, the guidance generally requires equity investments to be carried at fair value with changes flowing through net income. This requirement does not apply to equity-method investments. For financial liabilities measured at fair value, the guidance requires fair value changes attributable to instrument-specific credit risk to be presented separately in other comprehensive income, as opposed to reflecting the entire fair-value change in net income. The guidance is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company expects that adoption of this guidance will not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue recognition that superseded most existing revenue recognition guidance, including industry-specific guidance. The new guidance outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and provides a largely principles-based framework for addressing revenue recognition issues on a comprehensive basis. Under the new guidance, revenue would be recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration for which the entity expects to be entitled for that good or service. Additionally, enhanced disclosures would be required regarding both revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts, including quantitative and qualitative information about significant judgments and changes in those judgments made by management in recognizing revenue. The Company expects to adopt the guidance in the first quarter of 2018 on a modified retrospective basis. The Company currently anticipates that the most significant effect of the new guidance relates to the recognition of incentive income. The new guidance would require the Company to recognize incentive income when it concludes that it is probable that significant reversals of revenue will not occur in subsequent periods. Under current GAAP, the amount of incentive income recognized by the Company is generally limited to the amount that is not contingent on a future event. The Company is in the process of evaluating the effects, if any, of adopting the new standard on its consolidated financial statements.

### **3. VARIABLE INTEREST ENTITIES**

The Company consolidates VIEs for which it is the primary beneficiary. VIEs include funds managed by Oaktree and CLOs for which Oaktree acts as collateral manager. The purpose of these VIEs is to provide investment opportunities for investors in exchange for management fees and, in certain cases, performance-based allocations. While the investment strategies of the funds and CLOs differ by product, in general the fundamental risks of the funds and CLOs have similar characteristics, including loss of invested capital and reduction or absence of management and performance-based fees. As general partner or collateral manager, respectively, Oaktree generally considers itself the sponsor of the applicable fund or CLO. The Company does not provide performance guarantees and, other than capital commitments, has no financial obligation to provide funding to VIEs.

#### **Consolidated VIEs**

As of June 30, 2017, the Company consolidated 18 VIEs for which it was the primary beneficiary, including nine funds managed by Oaktree, eight CLOs for which Oaktree serves as collateral manager, and Oaktree AIF Holdings, Inc., which was formed to hold certain assets for regulatory and other purposes. Two of the consolidated funds, Oaktree Enhanced Income Retention Holdings III, LLC and Oaktree CLO RR Holder, LLC, were formed to

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satisfy risk retention requirements under Section 15G of the Exchange Act. One of the CLOs had not priced as of June 30, 2017. As of December 31, 2016, the Company consolidated 17 VIEs.

As of June 30, 2017, the assets and liabilities of the 17 consolidated VIEs representing funds and CLOs amounted to \$5.4 billion and \$4.5 billion, respectively. The assets of these consolidated VIEs primarily consisted of investments in debt and equity securities, while their liabilities primarily represented debt obligations issued by CLOs. The assets of these VIEs may be used only to settle obligations of the same VIE. In addition, there is no recourse to the Company for the VIEs' liabilities. In exchange for managing either the funds' or CLOs' collateral, the Company typically earns management fees and may earn performance fees, all of which are eliminated in consolidation. As of June 30, 2017, the Company's investments in consolidated VIEs had a carrying value of \$366.4 million, which represented its maximum risk of loss as of that date. The Company's investments in CLOs are generally subordinated to other interests in the CLOs and entitle the Company to receive a pro-rata portion of the residual cash flows, if any, from the CLOs. Please see note 9 for more information on CLO debt obligations.

**Unconsolidated VIEs**

The Company holds variable interests in certain VIEs in the form of direct equity interests that are not consolidated because it is not the primary beneficiary, inasmuch as its fee arrangements are considered at-market and it does not hold interests in those entities that are considered more than insignificant. The Company's investments in VIEs that were not consolidated are shown below.

	Carrying Value as of	
	June 30, 2017	December 31, 2016
Corporate investments .....	\$ 979,486	\$ 1,055,227
Due from affiliates .....	79,577	159,714
Maximum exposure to loss .....	\$ 1,059,063	\$ 1,214,941

**4. INVESTMENTS**

**Corporate Investments**

Corporate investments consist of investments in funds and companies in which the Company does not have a controlling financial interest. Investments for which the Company is deemed to exert significant influence are accounted for under the equity method of accounting and reflect Oaktree's ownership interest in each fund or company. In the case of investments for which the Company is not deemed to exert significant influence or control, the fair value option of accounting has been elected. Investment income represents the Company's pro-rata share of income or loss from these funds or companies, or the change in fair value of the investment, as applicable. Oaktree's general partnership interests are substantially illiquid. While investments in funds reflect each respective fund's holdings at fair value, equity-method investments in DoubleLine Capital LP and its affiliates (collectively, "DoubleLine") and other companies are not adjusted to reflect the fair value of the underlying company. The fair value of the underlying investments in Oaktree funds is based on the Company's assessment, which takes into account expected cash flows, earnings multiples and/or comparisons to similar market transactions, among other factors. Valuation adjustments reflecting consideration of credit quality, concentration risk, sales restrictions and other liquidity factors are integral to valuing these instruments.

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Corporate investments consisted of the following:

<b><u>Corporate Investments:</u></b>	<b>As of</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Equity-method Investments:		
Funds .....	\$ 891,501	\$ 981,209
Companies .....	25,188	34,932
Other investments, at fair value .....	99,389	107,591
Total corporate investments .....	<u>\$ 1,016,078</u>	<u>\$ 1,123,732</u>

The components of investment income are set forth below:

<b><u>Investment Income:</u></b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Equity-method Investments:				
Funds .....	\$ 36,562	\$ 10,259	\$ 69,483	\$ 29,219
Companies .....	18,829	16,682	34,723	31,789
Other investments, at fair value .....	(6,285)	14,059	(4,649)	9,439
Total investment income .....	<u>\$ 49,106</u>	<u>\$ 41,000</u>	<u>\$ 99,557</u>	<u>\$ 70,447</u>

***Equity-method Investments***

The Company's equity-method investments include its investments in Oaktree funds for which it serves as general partner, and other third-party funds and companies that are not consolidated for which the Company is deemed to exert significant influence. The Company's share of income or loss generated by these investments is recorded within investment income in the condensed consolidated statements of operations. The Company's equity-method investments in Oaktree funds principally reflect the Company's general partner interests in those funds, which typically does not exceed 2.5% in each fund. The Oaktree funds are investment companies that follow a specialized basis of accounting established by GAAP. Equity-method investments in companies include the Company's one-fifth equity stake in DoubleLine.

Each reporting period, the Company evaluates each of its equity-method investments to determine if any are considered significant, as defined by the SEC. As of or for the year ended December 31, 2016, no individual equity-method investment met the significance criteria. As a result, separate financial statements were not required for any of the Company's equity-method investments.

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Summarized financial information of the Company's equity-method investments is set forth below.

<u>Statement of Financial Condition:</u>	As of	
	June 30, 2017	December 31, 2016
<b>Assets:</b>		
Cash and cash-equivalents .....	\$ 3,499,510	\$ 3,713,045
Investments, at fair value .....	40,725,667	43,084,842
Other assets .....	1,820,104	1,994,304
Total assets .....	<u>\$ 46,045,281</u>	<u>\$ 48,792,191</u>
<b>Liabilities and Capital:</b>		
Debt obligations .....	\$ 8,203,642	\$ 7,372,063
Other liabilities .....	2,160,821	2,028,065
Total liabilities .....	10,364,463	9,400,128
Total capital .....	35,680,818	39,392,063
Total liabilities and capital .....	<u>\$ 46,045,281</u>	<u>\$ 48,792,191</u>

<u>Statements of Operations:</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues / investment income .....	\$ 557,070	\$ 482,265	\$ 1,077,680	\$ 1,025,099
Interest expense .....	(57,857)	(41,640)	(104,871)	(80,169)
Other expenses .....	(201,099)	(217,303)	(412,257)	(437,739)
Net realized and unrealized gain on investments .....	942,747	550,657	1,867,298	838,724
Net income .....	<u>\$ 1,240,861</u>	<u>\$ 773,979</u>	<u>\$ 2,427,850</u>	<u>\$ 1,345,915</u>

**Other Investments, at Fair Value**

Other investments, at fair value primarily consist of investments in certain Oaktree and non-Oaktree funds for which the fair value option of accounting has been elected, as well as derivatives utilized to hedge the Company's exposure to investment income earned from unconsolidated funds. The following table summarizes net gains (losses) attributable to the Company's other investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized gain (loss) .....	\$ 59	\$ 105	\$ 1,555	\$ (2,389)
Net change in unrealized gain (loss) .....	(6,344)	13,954	(6,204)	11,828
Total gain (loss) .....	<u>\$ (6,285)</u>	<u>\$ 14,059</u>	<u>\$ (4,649)</u>	<u>\$ 9,439</u>

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**Investments of Consolidated Funds**

***Investments, at Fair Value***

Investments held and securities sold short by the consolidated funds are summarized below:

<u>Investments</u>	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
United States:				
Debt securities:				
Consumer discretionary .....	\$ 688,630	\$ 628,621	14.5%	16.5%
Consumer staples .....	105,482	123,395	2.2	3.2
Energy .....	80,016	55,655	1.7	1.5
Financials .....	286,549	182,685	6.1	4.8
Government .....	5,827	5,234	0.1	0.1
Health care .....	433,737	337,138	9.2	8.9
Industrials .....	442,309	379,122	9.4	10.0
Information technology .....	426,966	272,637	9.0	7.2
Materials .....	266,851	237,417	5.6	6.2
Telecommunication services .....	167,012	93,893	3.5	2.5
Utilities .....	119,807	76,920	2.5	2.0
Total debt securities (cost: \$3,018,892 and \$2,378,759 as of June 30, 2017 and December 31, 2016, respectively) .....	3,023,186	2,392,717	63.8	62.9
Equity securities:				
Consumer discretionary .....	735	711	0.0	0.0
Consumer staples .....	209	—	0.0	—
Energy .....	1,845	2,002	0.1	0.1
Financials .....	5,881	3,977	0.1	0.1
Health care .....	305	343	0.0	0.0
Industrials .....	326	1	0.0	0.0
Materials .....	167	691	0.0	0.0
Telecommunication services .....	281	—	0.0	—
Total equity securities (cost: \$11,113 and \$5,462 as of June 30, 2017 and December 31, 2016, respectively) .....	9,749	7,725	0.2	0.2

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<b>Investments</b>	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
<b>Europe:</b>				
Debt securities:				
Consumer discretionary .....	\$ 447,928	\$ 374,627	9.5%	9.8%
Consumer staples .....	120,491	92,750	2.5	2.4
Energy .....	2,400	13,274	0.1	0.3
Financials .....	17,239	13,822	0.4	0.4
Government .....	3,381	1,996	0.1	0.1
Health care .....	248,510	210,078	5.2	5.5
Industrials .....	70,524	54,578	1.5	1.4
Information technology .....	38,683	23,832	0.8	0.6
Materials .....	255,943	226,961	5.4	6.0
Telecommunication services .....	195,500	214,182	4.1	5.6
Utilities .....	1,356	—	0.0	—
Total debt securities (cost: \$1,386,171 and \$1,214,068 as of June 30, 2017 and December 31, 2016, respectively) .....	1,401,955	1,226,100	29.6	32.1
Equity securities:				
Financials .....	2,730	1,605	0.1	0.0
Total equity securities (cost: \$1,872 and \$1,494 as of June 30, 2017 and December 31, 2016, respectively) .....	2,730	1,605	0.1	0.0
<b>Asia and other:</b>				
Debt securities:				
Consumer discretionary .....	23,605	3,145	0.4	0.1
Consumer staples .....	750	5,994	0.0	0.2
Energy .....	7,297	9,570	0.2	0.3
Financials .....	2,519	—	0.1	—
Government .....	1,003	1,506	0.0	0.0
Health care .....	14,039	1,245	0.3	0.0
Industrials .....	11,233	15,450	0.2	0.4
Information technology .....	443	409	0.0	0.0
Materials .....	7,770	10,245	0.2	0.3
Telecommunication services .....	9,253	4,809	0.2	0.1
Utilities .....	—	928	—	0.0
Total debt securities (cost: \$83,243 and \$57,400 as of June 30, 2017 and December 31, 2016, respectively) .....	77,912	53,301	1.6	1.4

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
<b>Investments</b>				
Asia and other:				
Equity securities:				
Consumer discretionary .....	\$ 13,510	\$ 7,639	0.3%	0.2%
Consumer staples .....	4,910	3,786	0.1	0.1
Energy .....	6,756	6,978	0.1	0.2
Financials .....	88,825	44,328	1.9	1.2
Health care .....	414	—	0.0	—
Industrials .....	42,508	21,564	0.9	0.6
Information technology .....	15,585	16,642	0.3	0.4
Materials .....	45,674	19,697	0.9	0.5
Telecommunication services .....	2,971	4,296	0.1	0.1
Utilities .....	3,001	1,856	0.1	0.1
Total equity securities (cost: \$206,335 and \$118,292 as of June 30, 2017 and December 31, 2016, respectively) .....	<u>224,154</u>	<u>126,786</u>	<u>4.7</u>	<u>3.4</u>
Total debt securities .....	4,503,053	3,672,118	95.0	96.4
Total equity securities .....	236,633	136,116	5.0	3.6
Total investments, at fair value .....	<u>\$ 4,739,686</u>	<u>\$ 3,808,234</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Securities Sold Short</b>				
Equity securities (proceeds: \$78,187 and \$41,541 as of June 30, 2017 and December 31, 2016, respectively) .....	<u>\$ (81,086)</u>	<u>\$ (41,016)</u>		

As of June 30, 2017 and December 31, 2016, no single issuer or investment had a fair value that exceeded 5% of Oaktree's total consolidated net assets.

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**Net Gains (Losses) From Investment Activities of Consolidated Funds**

Net gains (losses) from investment activities in the condensed consolidated statements of operations consist primarily of realized and unrealized gains and losses on the consolidated funds' investments (including foreign-exchange gains and losses attributable to foreign-denominated investments and related activities) and other financial instruments. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments. Upon disposition of an investment, unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The following table summarizes net gains (losses) from investment activities:

	Three Months Ended June 30,			
	2017		2016	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments .....	\$ 1,497	\$ 5,193	\$ 8,651	\$ 17,740
CLO liabilities <sup>(1)</sup> .....	—	23,517	—	(24,172)
Foreign-currency forward contracts <sup>(2)</sup> .....	(569)	(96)	(298)	849
Total-return and interest-rate swaps <sup>(2)</sup> .....	(722)	(237)	(907)	222
Options and futures <sup>(2)</sup> .....	29	76	(764)	60
Total .....	<u>\$ 235</u>	<u>\$ 28,453</u>	<u>\$ 6,682</u>	<u>\$ (5,301)</u>

	Six Months Ended June 30,			
	2017		2016	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments .....	\$ 2,236	\$ 8,929	\$ 12,322	\$ 27,423
CLO liabilities <sup>(1)</sup> .....	—	43,348	—	(52,374)
Foreign-currency forward contracts <sup>(2)</sup> .....	(390)	(410)	(500)	457
Total-return and interest-rate swaps <sup>(2)</sup> .....	(1,468)	998	(890)	(1,396)
Options and futures <sup>(2)</sup> .....	(2,015)	266	(849)	(83)
Total .....	<u>\$ (1,637)</u>	<u>\$ 53,131</u>	<u>\$ 10,083</u>	<u>\$ (25,973)</u>

- (1) Represents the net change in the fair value of CLO liabilities based on the more observable fair value of CLO assets, as measured under the CLO measurement guidance. Please see note 2 for more information.
- (2) Please see note 6 for additional information.

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**5. FAIR VALUE**

**Fair Value of Financial Assets and Liabilities**

The short-term nature of cash and cash-equivalents, receivables and accounts payable causes each of their carrying values to approximate fair value. The fair value of short-term investments included in cash and cash-equivalents is a Level I valuation. The Company's other financial assets and financial liabilities by fair-value hierarchy level are set forth below. Please see notes 9 and 16 for the fair value of the Company's outstanding debt obligations and amounts due from/to affiliates, respectively.

	As of June 30, 2017				As of December 31, 2016			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
<b>Assets</b>								
U.S. Treasury and time deposit securities <sup>(1)</sup> .....	\$ 555,008	\$ —	\$ —	\$ 555,008	\$ 757,578	\$ —	\$ —	\$ 757,578
Corporate investments .....	—	27,852	77,657	105,509	—	27,551	74,663	102,214
Foreign-currency forward contracts <sup>(2)</sup> .....	—	3,102	—	3,102	—	16,142	—	16,142
<b>Total assets</b> .....	<b>\$ 555,008</b>	<b>\$ 30,954</b>	<b>\$ 77,657</b>	<b>\$ 663,619</b>	<b>\$ 757,578</b>	<b>\$ 43,693</b>	<b>\$ 74,663</b>	<b>\$ 875,934</b>
<b>Liabilities</b>								
Contingent consideration <sup>(3)</sup> .....	\$ —	\$ —	\$ (24,029)	\$ (24,029)	\$ —	\$ —	\$ (23,567)	\$ (23,567)
Foreign-currency forward contracts <sup>(4)</sup> .....	—	(12,896)	—	(12,896)	—	(7,805)	—	(7,805)
Interest-rate swaps <sup>(3)</sup> .....	—	—	—	—	—	(60)	—	(60)
<b>Total liabilities</b> .....	<b>\$ —</b>	<b>\$ (12,896)</b>	<b>\$ (24,029)</b>	<b>\$ (36,925)</b>	<b>\$ —</b>	<b>\$ (7,865)</b>	<b>\$ (23,567)</b>	<b>\$ (31,432)</b>

- (1) Carrying value approximates fair value due to the short-term nature.  
(2) Amounts are included in other assets in the condensed consolidated statements of financial condition, except for \$5,377 as of December 31, 2016, which is included within corporate investments in the condensed consolidated statements of financial condition.  
(3) Amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.  
(4) Amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition, except for \$6,120 as of June 30, 2017, which is included within corporate investments in the condensed consolidated statements of financial condition.

There were no transfers between Level I and Level II positions for the six months ended June 30, 2017 and 2016.

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**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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The table below sets forth a summary of changes in the fair value of Level III financial instruments:

	Three Months Ended June 30,			
	2017		2016	
	Corporate Investments	Contingent Consideration Liability	Corporate Investments	Contingent Consideration Liability
Beginning balance .....	\$ 75,441	\$ (24,168)	\$ 25,624	\$ (27,884)
Contributions or additions .....	48	—	—	—
Distributions .....	(435)	—	—	—
Net gain (loss) included in earnings .....	2,603	139	957	2,889
Ending balance .....	<u>\$ 77,657</u>	<u>\$ (24,029)</u>	<u>\$ 26,581</u>	<u>\$ (24,995)</u>
Net change in unrealized gains (losses) attributable to financial instruments still held at end of period .....	<u>\$ 2,544</u>	<u>\$ 139</u>	<u>\$ 957</u>	<u>\$ 2,889</u>

	Six Months Ended June 30,			
	2017		2016	
	Corporate Investments	Contingent Consideration Liability	Corporate Investments	Contingent Consideration Liability
Beginning balance .....	\$ 74,663	\$ (23,567)	\$ 25,750	\$ (28,494)
Contributions or additions .....	204	—	—	—
Distributions .....	(3,570)	—	—	—
Net gain (loss) included in earnings .....	6,360	(462)	831	3,499
Ending balance .....	<u>\$ 77,657</u>	<u>\$ (24,029)</u>	<u>\$ 26,581</u>	<u>\$ (24,995)</u>
Net change in unrealized gains (losses) attributable to financial instruments still held at end of period .....	<u>\$ 4,027</u>	<u>\$ (462)</u>	<u>\$ 831</u>	<u>\$ 3,499</u>

The table below sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the Company's Level III financial instruments:

Financial Instrument	Fair Value as of		Valuation Technique	Significant Unobservable Input	Range	Weighted Average
	June 30, 2017	December 31, 2016				
Corporate investment – Limited partnership interests .....	\$ 77,657	\$ 74,663	Market approach (value of underlying assets)	Not applicable	Not applicable	Not applicable
Contingent consideration liability .....	24,029	23,567	Discounted cash flow	Assumed % of total potential contingent payments	0% – 100%	45%

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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**Fair Value of Financial Instruments Held By Consolidated Funds**

The short-term nature of cash and cash-equivalents held at the consolidated funds causes their carrying value to approximate fair value. The fair value of cash-equivalents is a Level I valuation. Derivatives may relate to a mix of Level I, II or III investments, and therefore their fair-value hierarchy level may not correspond to the fair-value hierarchy level of the economically hedged investment. The table below summarizes the investments and other financial instruments of the consolidated funds by fair-value hierarchy level:

	As of June 30, 2017				As of December 31, 2016			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
<b>Assets</b>								
Investments:								
Corporate debt – bank debt .....	\$ —	\$ 3,810,291	\$ 151,229	\$ 3,961,520	\$ —	\$ 2,973,482	\$ 208,868	\$ 3,182,350
Corporate debt – all other .....	—	498,064	43,469	541,533	—	460,975	28,793	489,768
Equities – common stock .....	227,106	49	7,287	234,442	129,362	61	6,693	136,116
Equities – preferred stock .....	1,777	414	—	2,191	—	—	—	—
Total investments .....	<u>228,883</u>	<u>4,308,818</u>	<u>201,985</u>	<u>4,739,686</u>	<u>129,362</u>	<u>3,434,518</u>	<u>244,354</u>	<u>3,808,234</u>
Derivatives:								
Foreign-currency forward contracts .....	—	117	—	117	—	216	—	216
Swaps .....	—	361	—	361	—	141	—	141
Total derivatives .....	<u>—</u>	<u>478</u>	<u>—</u>	<u>478</u>	<u>—</u>	<u>357</u>	<u>—</u>	<u>357</u>
Total assets .....	<u>\$ 228,883</u>	<u>\$ 4,309,296</u>	<u>\$ 201,985</u>	<u>\$ 4,740,164</u>	<u>\$ 129,362</u>	<u>\$ 3,434,875</u>	<u>\$ 244,354</u>	<u>\$ 3,808,591</u>
<b>Liabilities</b>								
CLO debt obligations:								
Senior secured notes <sup>(1)</sup> .....	\$ —	\$ (2,988,761)	\$ —	\$ (2,988,761)	\$ —	\$ (2,953,880)	\$ —	\$ (2,953,880)
Subordinated notes <sup>(1)</sup> .....	—	(111,268)	—	(111,268)	—	(100,330)	—	(100,330)
Total CLO debt obligations .....	<u>—</u>	<u>(3,100,029)</u>	<u>—</u>	<u>(3,100,029)</u>	<u>—</u>	<u>(3,054,210)</u>	<u>—</u>	<u>(3,054,210)</u>
Securities sold short:								
Equity securities .....	(81,086)	—	—	(81,086)	(41,016)	—	—	(41,016)
Derivatives:								
Foreign-currency forward contracts .....	—	(735)	—	(735)	—	(4)	—	(4)
Swaps .....	—	(37)	—	(37)	—	(1,082)	—	(1,082)
Total derivatives .....	<u>—</u>	<u>(772)</u>	<u>—</u>	<u>(772)</u>	<u>—</u>	<u>(1,086)</u>	<u>—</u>	<u>(1,086)</u>
Total liabilities .....	<u>\$ (81,086)</u>	<u>\$ (3,100,801)</u>	<u>\$ —</u>	<u>\$ (3,181,887)</u>	<u>\$ (41,016)</u>	<u>\$ (3,055,296)</u>	<u>\$ —</u>	<u>\$ (3,096,312)</u>

(1) The fair value of CLO liabilities is classified based on the more observable fair value of CLO assets. Please see notes 2 and 9 for more information.

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**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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The following tables set forth a summary of changes in the fair value of Level III investments:

	Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Total
<b>Three Months Ended June 30, 2017</b>				
Beginning balance .....	\$ 179,080	\$ 38,933	\$ 6,645	\$ 224,658
Transfers into Level III .....	2,344	1,978	—	4,322
Transfers out of Level III .....	(7,651)	—	—	(7,651)
Purchases .....	8,309	10,919	136	19,364
Sales .....	(31,071)	(8,309)	(523)	(39,903)
Realized gains (losses), net .....	107	116	—	223
Unrealized appreciation (depreciation), net .....	111	(168)	1,029	972
Ending balance .....	<u>\$ 151,229</u>	<u>\$ 43,469</u>	<u>\$ 7,287</u>	<u>\$ 201,985</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ 700</u>	<u>\$ (65)</u>	<u>\$ 1,029</u>	<u>\$ 1,664</u>
<b>Three Months Ended June 30, 2016</b>				
Beginning balance .....	\$ 200,811	\$ 1,853	\$ 4,326	\$ 206,990
Transfers into Level III .....	—	—	—	—
Transfers out of Level III .....	(1,962)	—	—	(1,962)
Purchases .....	2,239	1	157	2,397
Sales .....	(10,886)	—	(525)	(11,411)
Realized gains (losses), net .....	89	—	—	89
Unrealized appreciation (depreciation), net .....	(382)	36	16	(330)
Ending balance .....	<u>\$ 189,909</u>	<u>\$ 1,890</u>	<u>\$ 3,974</u>	<u>\$ 195,773</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ (2,103)</u>	<u>\$ 36</u>	<u>\$ 16</u>	<u>\$ (2,051)</u>

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	Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Real Estate Loan Portfolios	Swaps	Total
<b>Six Months Ended June 30, 2017</b>								
Beginning balance .....	\$ 208,868	\$ 28,793	\$ 6,693	\$ —	\$ —	\$ —	\$ —	\$ 244,354
Transfers into Level III .....	22,188	1,978	—	—	—	—	—	24,166
Transfers out of Level III .....	(49,120)	—	—	—	—	—	—	(49,120)
Purchases .....	23,317	27,118	136	—	—	—	—	50,571
Sales .....	(55,205)	(14,725)	(639)	—	—	—	—	(70,569)
Realized gains (losses), net....	211	311	87	—	—	—	—	609
Unrealized appreciation (depreciation), net.....	970	(6)	1,010	—	—	—	—	1,974
Ending balance.....	<u>\$ 151,229</u>	<u>\$ 43,469</u>	<u>\$ 7,287</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 201,985</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ 1,147</u>	<u>\$ 97</u>	<u>\$ 1,010</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,254</u>
<b>Six Months Ended June 30, 2016</b>								
Beginning balance .....	\$ 1,871,375	\$ 3,009,164	\$ 8,729,202	\$ 1,363,542	\$ 9,655,270	\$ 2,597,405	\$ (8,251)	\$ 27,217,707
Cumulative-effect adjustment from adoption of accounting guidance.....	(1,672,305)	(3,007,287)	(8,725,026)	(1,363,542)	(9,655,270)	(2,597,405)	8,251	(27,012,584)
Transfers into Level III .....	37,535	—	398	—	—	—	—	37,933
Transfers out of Level III .....	(42,670)	—	—	—	—	—	—	(42,670)
Purchases .....	9,378	2	157	—	—	—	—	9,537
Sales .....	(12,872)	—	(821)	—	—	—	—	(13,693)
Realized gains (losses), net....	115	—	—	—	—	—	—	115
Unrealized appreciation (depreciation), net.....	(647)	11	64	—	—	—	—	(572)
Ending balance.....	<u>\$ 189,909</u>	<u>\$ 1,890</u>	<u>\$ 3,974</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 195,773</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period .....	<u>\$ (647)</u>	<u>\$ 11</u>	<u>\$ 64</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (572)</u>

Total realized and unrealized gains and losses recorded for Level III investments are included in net realized gain on consolidated funds' investments or net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations.

Transfers between Level I and Level II positions for the six months ended June 30, 2017 included \$0.4 million from Level I to Level II due to a decline in trading activity for one credit-oriented security, which was valued using quoted prices. There were no transfers between Level I and Level II positions for the six months ended June 30, 2016.

Transfers out of Level III are generally attributable to certain investments that experienced a more significant level of market trading activity or completed an initial public offering during the respective period and thus were valued using observable inputs. Transfers into Level III typically reflect either investments that experienced a less significant level of market trading activity during the period or portfolio companies that undertook restructurings or bankruptcy proceedings and thus were valued in the absence of observable inputs.

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The following table sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the consolidated funds' Level III investments as of June 30, 2017:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs <sup>(1)(2)</sup>	Range	Weighted Average <sup>(3)</sup>
Credit-oriented investments:					
Consumer discretionary:	\$ 2,503	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 15%	14%
	42,617	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Consumer Staples:	1,594	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 13%	12%
	12,657	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Industrials:	14,607	Discounted cash flow <sup>(4)</sup>	Discount rate	6% – 11%	7%
	4,217	Market approach (comparable companies) <sup>(6)</sup>	Earnings multiple <sup>(7)</sup>	4x - 6x	5x
	29,687	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Information technology:	4,933	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 13%	12%
	7,187	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Materials:	1,209	Discounted cash flow <sup>(4)</sup>	Discount rate	10% – 12%	11%
	13,967	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Real Estate:	3,346	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 13%	12%
	30,843	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
	336	Recent transaction price <sup>(8)</sup>	Not applicable	Not applicable	Not applicable
Other:	13,320	Discounted cash flow <sup>(4)</sup>	Discount rate	8% – 15%	13%
	11,675	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Equity investments:					
	3,958	Market approach (comparable companies) <sup>(6)</sup>	Earnings multiple <sup>(7)</sup>	4x – 11x	7x
	1,343	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 30%	13%
	1,986	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Total Level III investments .....	<u>\$ 201,985</u>				

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The following table sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the consolidated funds' Level III investments as of December 31, 2016:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs <sup>(1)(2)</sup>	Range	Weighted Average <sup>(3)</sup>
Credit-oriented investments:					
Consumer discretionary:	\$ 7,658	Discounted cash flow <sup>(4)</sup>	Discount rate	5% – 13%	7%
	64,147	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Consumer Staples:	7,356	Discounted cash flow <sup>(4)</sup>	Discount rate	6% – 12%	7%
	23,182	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Energy:	12,758	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Industrials:	10,574	Discounted cash flow <sup>(4)</sup>	Discount rate	5% – 7%	6%
	4,230	Market approach (comparable companies) <sup>(6)</sup>	Earnings multiple <sup>(7)</sup>	5x - 7x	6x
	30,531	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Information technology:	11,681	Discounted cash flow <sup>(4)</sup>	Discount rate	6% – 13%	9%
	5,076	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Materials:	1,206	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 13%	12%
	15,586	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
Other:	13,754	Discounted cash flow <sup>(4)</sup>	Discount rate	8% – 16%	12%
	9,137	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
	20,785	Recent transaction price <sup>(8)</sup>	Not applicable	Not applicable	Not applicable
Equity investments:					
	3,542	Market approach (comparable companies) <sup>(6)</sup>	Earnings multiple <sup>(7)</sup>	4x – 11x	8x
	1,352	Discounted cash flow <sup>(4)</sup>	Discount rate	11% – 33%	14%
	1,799	Recent market information <sup>(5)</sup>	Quoted prices	Not applicable	Not applicable
<b>Total Level III investments .....</b>	<b>\$ 244,354</b>				

- (1) The discount rate is the significant unobservable input used in the fair-value measurement of performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, as well as certain equity investments and real estate loan portfolios. An increase (decrease) in the discount rate would result in a lower (higher) fair-value measurement.
- (2) Multiple of either earnings or underlying assets is the significant unobservable input used in the market approach for the fair-value measurement of distressed credit-oriented investments, credit-oriented investments in which the consolidated funds have a controlling interest in the underlying issuer, equity investments and certain real estate-oriented investments. An increase (decrease) in the multiple would result in a higher (lower) fair-value measurement.
- (3) The weighted average is based on the fair value of the investments included in the range.
- (4) A discounted cash-flow method is generally used to value performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, as well as certain equity investments, real estate-oriented investments and real estate loan portfolios.
- (5) Certain investments are valued using quoted prices for the subject or similar securities. Generally, investments valued in this manner are classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions.
- (6) A market approach is generally used to value distressed investments and investments in which the consolidated funds have a controlling interest in the underlying issuer.
- (7) Earnings multiples are based on comparable public companies and transactions with comparable companies. The Company typically utilizes multiples of EBITDA; however, in certain cases the Company may use other earnings multiples believed to be most relevant to the investment. The Company typically applies the multiple to trailing twelve-months' EBITDA. However, in certain cases other earnings measures, such as pro forma EBITDA, may be utilized if deemed to be more relevant.
- (8) Certain investments are valued based on recent transactions, generally defined as investments purchased or sold within six months of the valuation date. The fair value may also be based on a pending transaction expected to close after the valuation date.

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A significant amount of judgment may be required when using unobservable inputs, including assessing the accuracy of source data and the results of pricing models. The Company assesses the accuracy and reliability of the sources it uses to develop unobservable inputs. These sources may include third-party vendors that the Company believes are reliable and commonly utilized by other marketplace participants. As described in note 2, other factors beyond the unobservable inputs described above may have a significant impact on investment valuations.

During the six months ended June 30, 2017, there were no changes in the valuation techniques for Level III securities. During the six months ended June 30, 2016, the valuation technique for one Level III credit-oriented investment changed from a discounted cash flow to a market approach based on comparable companies due to the anticipated restructuring of the portfolio company.

## **6. DERIVATIVES AND HEDGING**

The Company enters into derivatives as part of its overall risk management strategy or to facilitate its investment management activities. Risks associated with fluctuations in interest rates and foreign-currency exchange rates in the normal course of business are addressed as part of the Company's overall risk management strategy that may include the use of derivatives to economically hedge or reduce these exposures. From time to time, the Company may enter into (a) foreign-currency option and forward contracts to reduce earnings and cash-flow volatility associated with changes in foreign-currency exchange rates, and (b) interest-rate swaps to manage all or a portion of the interest-rate risk associated with its variable-rate borrowings. As a result of the use of these or other derivative contracts, the Company is exposed to the risk that counterparties will fail to fulfill their contractual obligations. The Company attempts to mitigate this counterparty risk by entering into derivative contracts only with major financial institutions that have investment-grade credit ratings. Counterparty credit risk is evaluated in determining the fair value of derivatives.

When the Company enters into a derivative contract, the Company may elect to designate the derivative as a hedging instrument and apply hedge accounting as part of its overall risk management strategy. In other situations, when a derivative does not qualify for hedge accounting or when the derivative and the hedged item are both recorded in current-period earnings and thus deemed to be economic hedges, hedge accounting is not applied. Freestanding derivatives are financial instruments that the Company enters into as part of its overall risk management strategy but does not utilize hedge accounting. These financial instruments may include foreign-currency exchange contracts, interest-rate swaps and other derivative contracts.

As of June 30, 2017, there were no derivatives outstanding that were designated as hedging instruments for accounting purposes. As of December 31, 2016, the Company had one interest-rate swap outstanding, which expired in January 2017, that was designated to hedge the interest-rate risk of the \$150.0 million outstanding principal balance remaining under the \$250.0 million variable-rate bank term loan.

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The fair value of foreign-currency forward sell contracts consisted of the following:

<b><u>As of June 30, 2017:</u></b>	<b><u>Contract Amount in Local Currency</u></b>	<b><u>Contract Amount in U.S. Dollars</u></b>	<b><u>Market Value in U.S. Dollars</u></b>	<b><u>Net Unrealized Appreciation (Depreciation)</u></b>
Euro, expiring 7/10/17-6/29/18 .....	270,700	\$ 301,904	\$ 312,802	\$ (10,898)
USD (buy GBP), expiring 7/31/17-6/29/18 .....	63,920	63,920	63,088	832
CHF, expiring 12/29/17 .....	5,300	5,418	5,590	(172)
Japanese Yen, expiring 9/29/17-11/30/17 .....	6,145,000	55,307	54,863	444
Total .....		<u>\$ 426,549</u>	<u>\$ 436,343</u>	<u>\$ (9,794)</u>
 <b><u>As of December 31, 2016:</u></b>				
Euro, expiring 1/9/17-12/29/17 .....	242,100	\$ 271,848	\$ 257,652	\$ 14,196
USD (buy GBP), expiring 1/31/17-12/29/17 .....	72,565	72,565	78,143	(5,578)
Japanese Yen, expiring 1/31/17-2/28/17 .....	6,150,000	52,511	52,792	(281)
Total .....		<u>\$ 396,924</u>	<u>\$ 388,587</u>	<u>\$ 8,337</u>

Realized and unrealized gains and losses arising from freestanding derivative instruments were recorded in the condensed consolidated statements of operations as follows:

<b><u>Foreign-currency Forward Contracts</u></b>	<b><u>Three Months Ended June 30,</u></b>		<b><u>Six Months Ended June 30,</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Investment income .....	\$ (8,455)	\$ 6,530	\$ (9,328)	\$ (2,371)
General and administrative expense <sup>(1)</sup> .....	(6,268)	(8,221)	(8,951)	(18,112)
Total .....	<u>\$ (14,723)</u>	<u>\$ (1,691)</u>	<u>\$ (18,279)</u>	<u>\$ (20,483)</u>

(1) To the extent that the Company's freestanding derivatives are utilized to hedge its foreign-currency exposure to investment income and management fees earned from consolidated funds, the related hedged items are eliminated in consolidation, with the derivative impact (a positive number reflects a reduction in expenses) reflected in consolidated general and administrative expense.

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**Derivatives Held By Consolidated Funds**

Certain consolidated funds utilize derivatives in their ongoing investment operations. These derivatives primarily consist of foreign-currency forward contracts and options utilized to manage currency risk, interest-rate swaps to hedge interest-rate risk, options and futures used to hedge certain exposures for specific securities, and total-return swaps utilized mainly to obtain exposure to leveraged loans or to participate in foreign markets not readily accessible. The primary risk exposure for options and futures is price, while the primary risk exposure for total-return swaps is credit. None of the derivative instruments is accounted for as a hedging instrument utilizing hedge accounting.

The impact of derivatives held by the consolidated funds in the condensed consolidated statements of operations was as follows:

	Three Months Ended June 30,			
	2017		2016	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Foreign-currency forward contracts .....	\$ (569)	\$ (96)	\$ (298)	\$ 849
Total-return and interest-rate swaps .....	(722)	(237)	(907)	222
Options and futures .....	29	76	(764)	60
Total .....	<u>\$ (1,262)</u>	<u>\$ (257)</u>	<u>\$ (1,969)</u>	<u>\$ 1,131</u>

	Six Months Ended June 30,			
	2017		2016	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Foreign-currency forward contracts .....	\$ (390)	\$ (410)	\$ (500)	\$ 457
Total-return and interest-rate swaps .....	(1,468)	998	(890)	(1,396)
Options and futures .....	(2,015)	266	(849)	(83)
Total .....	<u>\$ (3,873)</u>	<u>\$ 854</u>	<u>\$ (2,239)</u>	<u>\$ (1,022)</u>

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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**Balance Sheet Offsetting**

The Company recognizes all derivatives as assets or liabilities at fair value in its condensed consolidated statements of financial condition. In connection with its derivative activities, the Company generally enters into agreements subject to enforceable master netting arrangements that allow the Company to offset derivative assets and liabilities in the same currency by specific derivative type or, in the event of default by the counterparty, to offset derivative assets and liabilities with the same counterparty. While these derivatives are eligible to be offset in accordance with applicable accounting guidance, the Company has elected to present derivative assets and liabilities based on gross fair value in its condensed consolidated statements of financial condition. The table below sets forth the setoff rights and related arrangements associated with derivatives held by the Company. The “gross amounts not offset in statements of financial condition” columns represent derivatives that management has elected not to offset in the consolidated statements of financial condition even though they are eligible to be offset in accordance with applicable accounting guidance.

	Gross and Net Amounts of Assets (Liabilities) Presented	Gross Amounts Not Offset in Statements of Financial Condition		Net Amount
		Derivative Assets (Liabilities)	Cash Collateral Received (Pledged)	
<b>As of June 30, 2017:</b>				
<b>Derivative Assets:</b>				
Foreign-currency forward contracts .....	\$ 3,102	\$ 3,102	\$ —	\$ —
<i>Derivative assets of consolidated funds:</i>				
Foreign-currency forward contracts .....	117	117	—	—
Total-return and interest-rate swaps .....	361	26	—	335
Subtotal .....	478	143	—	335
Total .....	<u>\$ 3,580</u>	<u>\$ 3,245</u>	<u>\$ —</u>	<u>\$ 335</u>
<b>Derivative Liabilities:</b>				
Foreign-currency forward contracts .....	\$ (12,896)	\$ (3,102)	\$ —	\$ (9,794)
<i>Derivative liabilities of consolidated funds:</i>				
Foreign-currency forward contracts .....	(735)	(117)	—	(618)
Total-return and interest-rate swaps .....	(37)	(26)	(11)	—
Subtotal .....	(772)	(143)	(11)	(618)
Total .....	<u>\$ (13,668)</u>	<u>\$ (3,245)</u>	<u>\$ (11)</u>	<u>\$ (10,412)</u>

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
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<u>As of December 31, 2016:</u>	<u>Gross and Net Amounts of Assets (Liabilities) Presented</u>	<u>Gross Amounts Not Offset in Statements of Financial Condition</u>		<u>Net Amount</u>
		<u>Derivative Assets (Liabilities)</u>	<u>Cash Collateral Received (Pledged)</u>	
<b>Derivative Assets:</b>				
Foreign-currency forward contracts .....	\$ 16,142	\$ 7,805	\$ —	\$ 8,337
<i>Derivative assets of consolidated funds:</i>				
Foreign-currency forward contracts .....	216	4	—	212
Total-return and interest-rate swaps .....	141	141	—	—
Subtotal .....	357	145	—	212
<b>Total .....</b>	<b>\$ 16,499</b>	<b>\$ 7,950</b>	<b>\$ —</b>	<b>\$ 8,549</b>
<b>Derivative Liabilities:</b>				
Foreign-currency forward contracts .....	\$ (7,805)	\$ (7,805)	\$ —	\$ —
Interest-rate swaps .....	(60)	—	—	(60)
Subtotal .....	(7,865)	(7,805)	—	(60)
<i>Derivative liabilities of consolidated funds:</i>				
Foreign-currency forward contracts .....	(4)	(4)	—	—
Total-return and interest-rate swaps .....	(1,082)	(141)	(941)	—
Subtotal .....	(1,086)	(145)	(941)	—
<b>Total .....</b>	<b>\$ (8,951)</b>	<b>\$ (7,950)</b>	<b>\$ (941)</b>	<b>\$ (60)</b>

## 7. FIXED ASSETS

Fixed assets, which consist of furniture and equipment, capitalized software, office leasehold improvements, and company-owned aircraft, are included in other assets in the condensed consolidated statements of financial position.

The following table sets forth the Company's fixed assets and accumulated depreciation:

	<u>As of</u>	
	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Furniture, equipment and capitalized software .....	\$ 23,417	\$ 18,771
Leasehold improvements .....	58,521	49,626
Corporate aircraft .....	66,277	66,277
Other .....	4,925	3,748
Fixed assets .....	153,140	138,422
Accumulated depreciation .....	(50,859)	(45,344)
Fixed assets, net .....	<b>\$ 102,281</b>	<b>\$ 93,078</b>

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**8. GOODWILL AND INTANGIBLES**

Goodwill represents the excess of cost over the fair value of identifiable net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead is tested for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or circumstances indicate that impairment may have occurred. As of both June 30, 2017 and December 31, 2016, the Company had \$69.3 million of goodwill.

The following table summarizes the carrying value of intangible assets:

	As of	
	June 30, 2017	December 31, 2016
Contractual rights .....	\$ 28,017	\$ 28,017
Accumulated amortization .....	(11,676)	(9,675)
Intangible assets, net .....	<u>\$ 16,341</u>	<u>\$ 18,342</u>

Amortization expense associated with the Company's intangible assets was \$1.0 million for both the three months ended June 30, 2017 and 2016, respectively, and \$2.0 million for both the six months ended June 30, 2017 and 2016. Amortization expense is estimated to be \$2.0 million for the remaining six months of 2017, \$4.0 million per annum for each of the years ending December 31, 2018 through 2020 and \$2.3 million for 2021.

Goodwill and intangible assets are included in other assets in the condensed consolidated statements of financial position.

**9. DEBT OBLIGATIONS AND CREDIT FACILITIES**

The Company's debt obligations are set forth below:

	As of	
	June 30, 2017	December 31, 2016
\$250,000, 6.75%, issued in November 2009, payable on December 2, 2019 .....	\$ 250,000	\$ 250,000
\$250,000, variable-rate term loan, issued in March 2014, payable on March 31, 2021 <sup>(1)</sup> .....	150,000	150,000
\$50,000, 3.91%, issued in September 2014, payable on September 3, 2024 .....	50,000	50,000
\$100,000, 4.01%, issued in September 2014, payable on September 3, 2026 .....	100,000	100,000
\$100,000, 4.21%, issued in September 2014, payable on September 3, 2029 .....	100,000	100,000
\$100,000, 3.69%, issued in July 2016, payable on July 12, 2031 .....	100,000	100,000
Total remaining principal .....	<u>750,000</u>	<u>750,000</u>
Less: Debt issuance costs .....	(3,664)	(4,103)
Debt obligations .....	<u>\$ 746,336</u>	<u>\$ 745,897</u>

(1) The credit agreement consists of a \$250 million term loan and a \$500 million revolving credit facility. Borrowings generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the revolving credit facility is 0.125% per annum. The credit agreement contains customary financial covenants and restrictions, including ones regarding a maximum leverage ratio and a minimum required level of assets under management (as defined in the credit agreement). As of June 30, 2017, the Company had no outstanding borrowings under the revolving credit facility.

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As of June 30, 2017, future scheduled principal payments of debt obligations were as follows:

Last six months of 2017 .....	\$	—
2018 .....		—
2019 .....		250,000
2020 .....		—
2021 .....		150,000
Thereafter .....		350,000
Total .....	<u>\$</u>	<u>750,000</u>

The Company was in compliance with all financial maintenance covenants associated with its senior notes and bank credit facility as of June 30, 2017 and December 31, 2016.

The fair value of the Company's debt obligations, which are carried at amortized cost, is a Level III valuation that is estimated based on a discounted cash-flow calculation using estimated rates that would be offered to Oaktree for debt of similar terms and maturities. The fair value of these debt obligations, gross of debt issuance costs, was \$787.6 million and \$756.6 million as of June 30, 2017 and December 31, 2016, respectively, utilizing an average borrowing rate of 3.3% and 3.9%, respectively. As of June 30, 2017, a 10% increase in the assumed average borrowing rate would lower the estimated fair value to \$772.9 million, whereas a 10% decrease would increase the estimated fair value to \$802.8 million.

**Credit Facilities of the Consolidated Funds**

Certain consolidated funds may maintain revolving credit facilities that are secured by the assets of the fund or may issue senior variable rate notes to fund investments on a longer term basis, generally up to ten years. The obligations of the consolidated funds are nonrecourse to the Company.

The consolidated funds had the following debt obligations outstanding:

<u>Credit Agreement</u>	<u>Outstanding Amount as of</u>		<u>Facility Capacity</u>	<u>LIBOR Margin <sup>(1)</sup></u>	<u>Maturity</u>	<u>Commitment Fee Rate</u>	<u>L/C Fee</u>
	<u>June 30, 2017</u>	<u>December 31, 2016</u>					
Revolving credit facility .....	\$ 254,000	\$ —	\$ 450,000	1.25%	4/19/2019	N/A	N/A
Senior variable rate notes <sup>(2)</sup> .....	488,998	488,997	\$ 489,000	Various	10/20/2027	N/A	N/A
Total debt obligations .....	742,998	488,997					
Less: Debt issuance costs .....	(4,448)	(5,041)					
Total debt obligations, net .....	<u>\$ 738,550</u>	<u>\$ 483,956</u>					

(1) The facility bears interest at an annual rate of LIBOR plus the applicable margin.

(2) The weighted average interest rate was 2.70% as of June 30, 2017.

As of June 30, 2017 and December 31, 2016, the consolidated funds had debt obligations with an aggregate outstanding principal balance of \$743.0 million and \$489.0 million, respectively. The fair value of the revolving credit facility is a Level III valuation and approximated carrying value due to the short-term or revolving nature. The fair value of the senior variable rate notes is a Level III valuation and approximated carrying value as of June 30, 2017 and December 31, 2016 due to their recent issuance date. Financial instruments that are valued using quoted prices for the security or similar securities are generally classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions.

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**Debt Obligations of CLOs**

Debt obligations of CLOs represent amounts due to holders of debt securities issued by the CLOs, as well as term loans of CLOs that had not priced as of period end. The table below sets forth the outstanding debt obligations of CLOs as of the date indicated.

	As of June 30, 2017			As of December 31, 2016		
	Fair Value <sup>(1)</sup>	Weighted Average Interest Rate	Weighted Average Remaining Maturity (years)	Fair Value <sup>(1)</sup>	Weighted Average Interest Rate	Weighted Average Remaining Maturity (years)
Senior secured notes <sup>(2)(3)</sup> .....	\$ 398,563	3.01%	12.0	\$ 471,603	2.90%	8.2
Senior secured notes <sup>(2)(4)</sup> .....	458,294	2.92%	9.4	470,298	3.03%	9.9
Senior secured notes <sup>(5)</sup> .....	24,129	3.62%	1.5	49,336	3.31%	2.0
Senior secured notes <sup>(6)</sup> .....	385,301	1.73%	10.2	357,706	1.73%	10.7
Senior secured notes <sup>(2)</sup> .....	462,930	3.23%	10.5	467,084	2.96%	11.0
Senior secured notes <sup>(6)(7)</sup> .....	411,248	1.73%	13.1	360,234	2.29%	11.3
Senior secured notes <sup>(6)</sup> .....	424,810	2.28%	11.9	395,458	2.28%	12.4
Senior secured notes <sup>(6)</sup> .....	423,486	1.99%	12.7	382,161	1.99%	13.2
Subordinated note <sup>(8)</sup> .....	17,024	N/A	9.4	12,281	N/A	9.9
Subordinated note <sup>(8)</sup> .....	19,601	N/A	10.2	17,871	N/A	10.7
Subordinated note <sup>(8)</sup> .....	18,952	N/A	10.5	18,432	N/A	11.0
Subordinated note <sup>(8)</sup> .....	17,115	N/A	13.1	13,422	N/A	11.3
Subordinated note <sup>(8)</sup> .....	20,096	N/A	11.9	17,073	N/A	12.4
Subordinated note <sup>(8)</sup> .....	18,480	N/A	12.7	21,251	N/A	13.2
Total CLO debt obligations .....	<u>\$ 3,100,029</u>			<u>\$ 3,054,210</u>		

- (1) The fair value of CLO liabilities was measured as the fair value of CLO assets less the sum of (a) the fair value of any beneficial interests held by the Company and (b) the carrying value of any beneficial interests that represent compensation for services. Please see notes 2 and 5 for more information.
- (2) The weighted average interest rate is based on LIBOR plus a margin.
- (3) These notes were reset in May 2017, resulting in a lower interest rate spread and an extension to the original maturity date.
- (4) These notes were refinanced in March 2017, resulting in a lower interest rate spread. There was no change to the original maturity date.
- (5) The interest rate is LIBOR plus a margin determined based on a formula as defined in the respective borrowing agreements, which incorporate different borrowing values based on the characteristics of collateral investments purchased. The weighted average unused commitment fee rate ranged from 0% to 2.0%.
- (6) The weighted average interest rate is based on EURIBOR (subject to a zero floor) plus a margin.
- (7) These notes were reset in May 2017, resulting in a lower interest rate spread and an extension to the original maturity date.
- (8) The subordinated notes do not have a contractual interest rate; instead, they receive distributions from the excess cash flows generated by the CLO.

The debt obligations of CLOs are nonrecourse to the Company and are backed by the investments held by the respective CLO. Assets of one CLO may not be used to satisfy the liabilities of another. As of June 30, 2017 and December 31, 2016, the fair value of CLO assets was \$3.7 billion and \$3.4 billion, respectively, and consisted of cash, corporate loans, corporate bonds and other securities.

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As of June 30, 2017, future scheduled principal or par value payments with respect to the debt obligations of CLOs were as follows:

Last six months of 2017 .....	\$	—
2018 .....		24,129
2019 .....		—
2020 .....		—
2021 .....		—
Thereafter .....		3,099,250
Total .....	<u>\$</u>	<u>3,123,379</u>

**10. NON-CONTROLLING REDEEMABLE INTERESTS IN CONSOLIDATED FUNDS**

The following table sets forth a summary of changes in the non-controlling redeemable interests in the consolidated funds. Dividends reinvested and in-kind contributions or distributions are non-cash in nature and have been presented on a gross basis in the table below.

	Six Months Ended June 30,	
	2017	2016
Beginning balance .....	\$ 344,047	\$ 38,173,125
Cumulative-effect adjustment from adoption of accounting guidance .....	—	(37,969,042)
Initial consolidation of a fund .....	70,817	—
Contributions .....	95,932	64,321
Distributions .....	(31,655)	(21,919)
Net income .....	12,603	1,989
Change in distributions payable .....	5,662	(822)
Foreign currency translation and other .....	—	1,605
Ending balance .....	<u>\$ 497,406</u>	<u>\$ 249,257</u>

**11. UNITHOLDERS' CAPITAL**

Unitholders' capital reflects the economic interests attributable to Class A unitholders, non-controlling interests in consolidated subsidiaries and non-controlling interests in consolidated funds. Non-controlling interests in consolidated subsidiaries represent the portion of unitholders' capital attributable to the OCGH non-controlling interest and third parties. The OCGH non-controlling interest is determined at the Oaktree Operating Group level based on the proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Certain expenses, such as income tax and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders. As of June 30, 2017 and December 31, 2016, respectively, OCGH units represented 92,043,490 of the total 156,228,900 Oaktree Operating Group units and 91,758,067 of the total 154,790,343 Oaktree Operating Group units. Based on total allocable Oaktree Operating Group capital of \$1,965,265 and \$1,754,882 as of June 30, 2017 and December 31, 2016, respectively, the OCGH non-controlling interest was \$1,157,840 and \$1,040,274. As of June 30, 2017 and December 31, 2016, non-controlling interests attributable to third parties was \$8,948 and \$10,045, respectively.

**Oaktree Capital Group, LLC**  
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The following table sets forth a summary of net income attributable to the OCGH unitholders' non-controlling interest and to Class A unitholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average Oaktree Operating Group units outstanding (in thousands):				
OCGH non-controlling interest .....	91,740	92,440	91,692	92,177
Class A unitholders .....	64,193	62,617	63,611	62,256
Total weighted average units outstanding .....	<u>155,933</u>	<u>155,057</u>	<u>155,303</u>	<u>154,433</u>
Oaktree Operating Group net income:				
Net income attributable to OCGH non-controlling interest ..	\$ 173,638	\$ 83,256	\$ 270,236	\$ 142,082
Net income attributable to Class A unitholders.....	121,499	56,397	187,927	96,012
Oaktree Operating Group net income <sup>(1)</sup> .....	<u>\$ 295,137</u>	<u>\$ 139,653</u>	<u>\$ 458,163</u>	<u>\$ 238,094</u>
Net income attributable to Oaktree Capital Group, LLC:				
Oaktree Operating Group net income attributable to Class A unitholders .....	\$ 121,499	\$ 56,397	\$ 187,927	\$ 96,012
Non-Operating Group expenses .....	(255)	(201)	(487)	(465)
Income tax expense of Intermediate Holding Companies ...	(3,920)	(7,149)	(15,201)	(18,422)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 117,324</u>	<u>\$ 49,047</u>	<u>\$ 172,239</u>	<u>\$ 77,125</u>

(1) Oaktree Operating Group net income does not include amounts attributable to other non-controlling interests, which amounted to \$620 and \$1,246 for the three and six months ended June 30, 2017, respectively, and \$1,212 and \$2,420 for the three and six months ended June 30, 2016, respectively.

The change in the Company's ownership interest in the Oaktree Operating Group is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income attributable to Oaktree Capital Group, LLC .....	\$ 117,324	\$ 49,047	\$ 172,239	\$ 77,125
Equity reallocation between controlling and non-controlling interests .....	(2,562)	645	9,499	8,126
Change from net income attributable to Oaktree Capital Group, LLC and transfers from non-controlling interests .....	<u>\$ 114,762</u>	<u>\$ 49,692</u>	<u>\$ 181,738</u>	<u>\$ 85,251</u>

Please see notes 12, 13 and 14 for additional information regarding transactions that impacted unitholders' capital.

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**12. EARNINGS PER UNIT**

The computation of net income per Class A unit is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per unit amounts)			
Net income per Class A unit (basic and diluted):				
Net income attributable to Oaktree Capital Group, LLC .....	\$ 117,324	\$ 49,047	\$ 172,239	\$ 77,125
Weighted average number of Class A units outstanding (basic and diluted) .....	64,193	62,617	63,611	62,256
Basic and diluted net income per Class A unit.....	\$ 1.83	\$ 0.78	\$ 2.71	\$ 1.24

OCGH units may be exchanged on a one-for-one basis into Class A units, subject to certain restrictions. As of June 30, 2017, there were 92,043,490 OCGH units outstanding, which are vested or will vest through February 15, 2027, that ultimately may be exchanged into 92,043,490 Class A units. The exchange of these units would proportionally increase the Company's interest in the Oaktree Operating Group. However, as the restrictions set forth in the exchange agreement were in place at the end of each respective reporting period, those units were not included in the computation of diluted earnings per unit for the three and six months ended June 30, 2017 and 2016.

A deferred equity unit represents a special unit award that, when vested, will be settled with an unvested OCGH unit on a one-for-one basis. The number of deferred equity units that will vest is based on the achievement of certain performance targets through June 2021. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over 4.0 years. The holder of a deferred equity unit is not entitled to any distributions until the issuance of an OCGH unit in settlement of a deferred equity unit. As of June 30, 2017, no OCGH units were considered issuable under the terms of the arrangement; consequently, no contingently issuable units were included in the computation of diluted earnings per unit for the three and six months ended June 30, 2017. Please see note 13 for more information.

In connection with the 2014 Highstar acquisition, the Company has a contingent consideration liability that is payable in a combination of cash and fully-vested OCGH units. The amount of contingent consideration, if any, is based on the achievement of certain performance targets over a period of up to seven years from the acquisition date. As of June 30, 2017, no OCGH units were considered issuable under the terms of the contingent consideration arrangement; consequently, no contingently issuable units were included in the computation of diluted earnings per unit for the three and six months ended June 30, 2017 and 2016. Please see note 15 for more information.

**13. EQUITY-BASED COMPENSATION**

**Class A and OCGH Unit Awards**

During the six months ended June 30, 2017, the Company granted 1,212,329 Class A units and 266,362 restricted OCGH units to its employees and directors, subject to annual vesting over a weighted average period of approximately 5.6 years. The grant date fair value of OCGH units awarded during the six months ended June 30, 2017 was determined by applying a 20% discount to the Class A unit trading price on the New York Stock Exchange as of the grant date. In the first quarter of 2017, the Company adopted the new accounting guidance related to share-based payment awards, as further discussed in note 2. With respect to forfeitures, the Company adopted the guidance on a modified retroactive basis and made an accounting policy election to account for forfeitures when they occur. Accordingly, no forfeitures have been assumed in the calculation of compensation expense effective January 1, 2017.

As of June 30, 2017, the Company expected to recognize compensation expense on its unvested Class A and OCGH unit awards of \$170.9 million over a weighted average period of 4.5 years.

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A summary of the status of the Company's unvested Class A and OCGH unit awards and a summary of changes for the period presented are set forth below (actual dollars per unit):

	Class A Units		OCGH Units	
	Number of Units	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2016 .....	2,128,400	\$ 41.86	2,337,953	\$ 39.80
Granted .....	1,212,329	45.30	266,362	37.13
Vested .....	(744,749)	40.40	(344,702)	39.23
Forfeited .....	(16,694)	45.58	—	—
Balance, June 30, 2017 .....	2,579,286	\$ 43.88	2,259,613	\$ 39.62

### Equity Value Units

OCGH equity value units ("EVUs") represent special limited partnership units in OCGH that entitle the holder the right to receive special distributions that will be settled in OCGH units, based on value created during a specified period in excess of a fixed "Base Value." The value created will be measured on a per unit basis, based on the appreciation of the Class A units and certain components of quarterly distributions with respect to OCGH units over the period beginning on January 1, 2015 and ending on each of December 31, 2019, December 31, 2020 and December 31, 2021, with one-third of the EVUs recapitalizing on each such date. EVUs also give the holder the right, subject to service vesting and Oaktree performance relative to the accreting Base Value, to receive certain quarterly distributions from OCGH. EVUs do not entitle the holder to any voting rights.

Certain EVUs provide the holder with liquidity rights in respect of the special distributions, if any, that will be settled in OCGH units. The Company accounts for EVUs with liquidity rights as liability-classified awards. As of June 30, 2017, there were 1,000,000 equity-classified EVUs and 1,000,000 liability-classified EVUs outstanding. As of June 30, 2017, the Company expected to recognize \$4.6 million of compensation expense on its unvested EVUs over the next 2.5 years. Equity-classified EVUs that require future service are expensed on a straight-line basis over the requisite service period. Liability-classified EVUs are remeasured at the end of each quarter.

On April 26, 2017, the terms of the EVU agreement were amended such that the value received under the EVUs will be reduced by (i) distributions received by the holder on 225,000 OCGH units granted to the holder on April 26, 2017, (ii) the value of the portion of profit sharing payments received by the holder attributable to the net incentive income received from certain funds, and (iii) the full value of the OCGH units granted to the holder on April 26, 2017. To the extent that the reduction relates to the value of any such OCGH units that are unvested at the time of the reduction, such OCGH units will vest at that time. The amendment was accounted for as a modification of an equity award in the second quarter of 2017 and resulted in \$4.1 million of incremental compensation cost as of the modification date, which will be recognized over the remaining vesting period.

The fair value of EVUs was determined using a Monte Carlo simulation model at the grant date for equity-classified EVUs and as of the period end date for liability-classified EVUs. The fair value is affected by the Class A unit trading price and assumptions regarding certain complex and subjective variables, including the expected Class A unit trading price volatility, distributions and exercise timing, and the risk-free interest rate.

### Deferred Equity Units

A deferred equity unit represents a special unit award that, when vested, will be settled with an unvested OCGH unit on a one-for-one basis. The number of deferred equity units that will vest is based on the achievement of certain performance targets through June 2021. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over 4.0 years. The holder of a deferred equity unit is not entitled to any distributions until the issuance of an OCGH unit in settlement of a deferred equity unit. As of June 30, 2017, there were 250,000 deferred equity units outstanding, all of which were granted in the second quarter of 2017. As of June 30, 2017, the Company expected to recognize \$9.1 million of compensation expense on its

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unvested deferred equity units over a weighted average period of approximately 5.5 years. Please see note 12 for more information.

The fair value of the deferred equity units was determined at the grant date based on the then-prevailing Class A unit trading price and reflected a 20% lack-of-marketability discount for the OCGH units that will be issued upon vesting.

#### **14. INCOME TAXES AND RELATED PAYMENTS**

Oaktree is a publicly traded partnership and Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., two of its Intermediate Holding Companies, are wholly-owned corporate subsidiaries. Income earned by these corporate subsidiaries is subject to U.S. federal and state income taxation and taxed at prevailing rates. Income earned by non-corporate subsidiaries is not subject to U.S. federal corporate income tax and is allocated to the Oaktree Operating Group's unitholders. The Company's effective tax rate is dependent on many factors, including the estimated nature of many amounts and the mix of revenues and expenses between the subsidiaries that are or are not subject to income tax; consequently, from period to period the effective tax rate is subject to significant variation. The Company's effective tax rate used for interim periods is based on the estimated full-year income tax rate. Certain future items that cannot be reliably estimated, such as incentive income, are excluded from the estimated annual effective tax rate. The tax expense or benefit stemming from these items is recognized in the same period as the underlying income or expense.

Tax authorities currently are examining certain income tax returns of Oaktree, with certain of these examinations at an advanced stage. Over the next four quarters ending June 30, 2018, the Company believes that it is reasonably possible that one outcome of these examinations and expiring statutes of limitation on other items may be the release of up to approximately \$5.9 million of previously accrued Operating Group income taxes. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax examinations and that any settlements related thereto will not have a material adverse effect on the Company's consolidated financial statements; however, there can be no assurances as to the ultimate outcomes.

#### **Exchange Agreement and Tax Receivable Agreement**

Subject to certain restrictions and the approval of the Company's board of directors, each holder of OCGH units has the right to exchange his or her vested units for, at the option of the Company's board of directors, Class A units, an equivalent amount of cash based on then-prevailing market prices and/or other consideration of equal value. Certain of the Oaktree Operating Group entities made an election under Section 754 of the U.S. Internal Revenue Code, as amended, which may result in an adjustment to the tax basis of the assets owned by the Oaktree Operating Group at the time of an exchange. These exchanges may result in increases in tax deductions and tax basis that would reduce the amount of tax that Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. would otherwise be required to pay in the future.

Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. have entered into a tax receivable agreement with OCGH unitholders that, as amended, provides for the payment to an exchanging or selling OCGH unitholder of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that they actually realize (or are deemed to realize in the case of an early termination payment by Oaktree Holdings, Inc. or Oaktree AIF Holdings, Inc., or a change of control) as a result of an increase in the tax basis of the assets owned by the Oaktree Operating Group. When an exchange of OCGH units results in an increase to the tax basis of the assets owned by the Oaktree Operating Group, a deferred tax asset and an associated liability for payments to OCGH unitholders under the tax receivable agreement are recorded, subject to realizability considerations. The establishment of a deferred tax asset increases additional paid-in capital because the transactions are between Oaktree and its unitholders.

Assuming no material changes in the relevant tax law and that the Company earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments to OCGH unitholders under the tax receivable agreement, as of June 30, 2017, are estimated to aggregate \$33.4 million over the period ending approximately in 2029 with respect to the 2007 Private Offering, \$71.3 million over the period ending approximately in 2034 with respect to the initial public offering, \$99.0 million over the period ending

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approximately in 2035 with respect to the May 2013 Offering, \$74.5 million over the period ending approximately in 2036 with respect to the March 2014 Offering, and \$62.7 million over the period ending approximately in 2037 with respect to the March 2015 Offering. Future estimated payments to OCGH unitholders under the tax receivable agreement are subject to increase in the event of additional exchanges of OCGH units.

No amounts were paid under the tax receivable agreement during the six months ended June 30, 2017.

## **15. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, Oaktree enters into contracts that contain certain representations, warranties and indemnifications. The Company's exposure under these arrangements would involve future claims that have not yet been asserted. Inasmuch as no such claims currently exist or are expected to arise, the Company has not accrued any liability in connection with these indemnifications.

### **Legal Actions**

Oaktree, its affiliates, investment professionals, and portfolio companies are routinely involved in litigation and other legal actions in the ordinary course of their business and investing activities. In addition, Oaktree is subject to the authority of a number of U.S. and non-U.S. regulators, including the SEC and the Financial Industry Regulatory Authority, and those authorities periodically conduct examinations of Oaktree and make other inquiries that may result in the commencement of regulatory proceedings against Oaktree and its personnel. Oaktree is currently not subject to any pending actions or regulatory proceedings that either individually or in the aggregate are expected to have a material impact on its consolidated financial statements.

### **Incentive Income**

In addition to the incentive income recognized by the Company, certain of its funds have amounts recorded as potentially allocable to the Company as its share of potential future incentive income, based on each fund's net asset value. Inasmuch as this incentive income is contingent upon future investment activity and other factors, it is not recognized by the Company until it is fixed or determinable. As of June 30, 2017 and December 31, 2016, respectively, the aggregate of such amounts recorded at the fund level in excess of incentive income recognized by the Company was \$1,778,191 and \$1,970,755, for which related direct incentive income compensation expense was estimated to be \$913,673 and \$1,026,345.

### **Contingent Consideration**

The Company has a contingent consideration obligation of up to \$60.0 million related to the 2014 Highstar acquisition, payable in cash and fully-vested OCGH units. The amount of contingent consideration is based on the achievement of certain performance targets over a period of up to seven years from the acquisition date. As of June 30, 2017 and December 31, 2016, respectively, the fair value of the contingent consideration liability was \$24.0 million and \$23.6 million. Changes in this liability resulted in income of \$0.1 million and expense of \$0.5 million for the three and six months ended June 30, 2017, respectively, and income of \$2.9 million and \$3.5 million for the three and six months ended June 30, 2016, respectively. The fair value of the contingent consideration liability is a Level III valuation, which uses a discounted cash-flow analysis based on a probability-weighted average estimate of certain performance targets, including fundraising and revenue levels. The assumptions used in the analysis are inherently subjective, and thus the ultimate amount of the contingent consideration liability may differ materially from the most recent estimate. The contingent consideration liability is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Changes in the liability are recorded in general and administrative expense in the condensed consolidated statements of operations.

### **Commitments to Funds**

As of June 30, 2017 and December 31, 2016, the Company, generally in its capacity as general partner, had undrawn capital commitments of \$460.4 million and \$565.4 million, respectively, including commitments to both unconsolidated and consolidated funds.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**June 30, 2017**  
(\$ in thousands, except where noted)

**Investment Commitments of Consolidated Funds**

Certain of the consolidated funds are parties to credit arrangements that provide for the issuance of letters of credit and/or revolving loans, which may require the particular fund to extend loans to investee companies. The consolidated funds use the same investment criteria in making these commitments as they do for investments that are included in the condensed consolidated statements of financial condition. The unfunded liability associated with these credit arrangements is equal to the amount by which the contractual loan commitment exceeds the sum of funded debt and cash held in escrow, if any. As of June 30, 2017 and December 31, 2016, the consolidated funds had potential aggregate commitments of \$11.3 million and \$2.1 million, respectively. These commitments are expected to be funded by the funds' cash balances, proceeds from asset sales or drawdowns against existing capital commitments.

A consolidated fund may agree to guarantee the repayment obligations of certain investee companies. As of June 30, 2017 and December 31, 2016, there were no guaranteed amounts under such arrangements.

Certain consolidated funds are investment companies that are required to disclose financial support provided or contractually required to be provided to any of their portfolio companies. During the six months ended June 30, 2017, the consolidated funds did not provide any financial support to portfolio companies.

**16. RELATED-PARTY TRANSACTIONS**

The Company considers its senior executives, employees and unconsolidated Oaktree funds to be affiliates (as defined in the FASB ASC Master Glossary). Amounts due from and to affiliates are set forth below. The fair value of amounts due from and to affiliates is a Level III valuation and was valued based on a discounted cash-flow analysis. The carrying value of amounts due from affiliates approximated fair value due to their short-term nature or because their average interest rate, which ranged from 2.0% to 3.0%, approximated the Company's cost of debt. The fair value of amounts due to affiliates approximated \$167,217 and \$164,335 as of June 30, 2017 and December 31, 2016, respectively, based on a discount rate of 10.0%.

	As of	
	June 30, 2017	December 31, 2016
Due from affiliates:		
Loans .....	\$ 12,172	\$ 19,325
Amounts due from unconsolidated funds .....	65,638	53,573
Management fees and incentive income due from unconsolidated funds .....	49,443	130,708
Payments made on behalf of unconsolidated entities .....	3,775	3,779
Non-interest bearing advances made to certain non-controlling interest holders and employees .....	1,915	1,258
Total due from affiliates .....	<u>\$ 132,943</u>	<u>\$ 208,643</u>
Due to affiliates:		
Due to OCGH unitholders in connection with the tax receivable agreement (please see note 14) .....	\$ 340,966	\$ 340,966
Amounts due to senior executives, certain non-controlling interest holders and employees .....	775	5,577
Total due to affiliates .....	<u>\$ 341,741</u>	<u>\$ 346,543</u>

**Loans**

Loans primarily consist of interest-bearing loans made to certain non-controlling interest holders, primarily certain employees, to meet tax obligations related to vesting of equity awards. The loans, which are generally recourse to the borrower or secured by vested equity and other collateral, typically bear interest at the Company's cost of debt and generated interest income of \$124 and \$275 for the three and six months ended June 30, 2017, respectively, and \$246 and \$450 for the three and six months ended June 30, 2016, respectively.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**June 30, 2017**  
**(\$ in thousands, except where noted)**

**Due From Oaktree Funds and Portfolio Companies**

In the normal course of business, the Company advances certain expenses on behalf of Oaktree funds. Amounts advanced on behalf of consolidated funds are eliminated in consolidation. Certain expenses paid by the Company, which typically are employee travel and other costs associated with particular portfolio company holdings, are reimbursed to the Company by the portfolio companies.

**Revenues Earned From Oaktree Funds**

Management fees and incentive income earned from unconsolidated Oaktree funds totaled \$604.6 million and \$864.9 million for the three and six months ended June 30, 2017, respectively, and \$255.4 million and \$482.4 million for the three and six months ended June 30, 2016, respectively.

**Other Investment Transactions**

The Company's senior executives, directors and senior professionals are permitted to invest their own capital (or the capital of family trusts or other estate planning vehicles they control) in Oaktree funds, for which they pay the particular fund's full management fee but not its incentive allocation. To facilitate the funding of capital calls by funds in which employees are invested, the Company periodically advances on a short-term basis the capital calls on certain employees' behalf. These advances are reimbursed generally toward the end of the calendar quarter in which the capital calls occurred. Amounts advanced by the Company are included in non-interest bearing advances made to certain non-controlling interest holders and employees.

**Aircraft Services**

The Company owns an aircraft for business purposes. Howard Marks, the Company's co-chairman, may use this aircraft for personal travel and will reimburse the Company to the extent his use of the aircraft for personal travel exceeds a certain threshold pursuant to a Company policy adopted as of January 1, 2017. Additionally, the Company occasionally makes use of an aircraft owned by one of its senior executives for business purposes at a price to the Company that is based on market rates.

**Special Allocations**

Certain senior executives receive special allocations based on a percentage of profits of the Oaktree Operating Group. These special allocations, which are recorded as compensation expense, are made on a current basis for so long as they remain senior executives of the Company, with limited exceptions.

**17. SEGMENT REPORTING**

As a global investment manager, the Company provides investment management services through funds and separate accounts. The Company earns revenues from the management fees and incentive income generated by the funds that it manages. Management uses a consolidated approach to assess performance and allocate resources. As such, the Company's business is comprised of one segment, the investment management business. The Company conducts its investment management business primarily in the United States, where substantially all of its revenues are generated.

**Oaktree Capital Group, LLC**  
**Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)**  
**June 30, 2017**  
**(\$ in thousands, except where noted)**

**18. SUBSEQUENT EVENTS**

**Distribution**

On July 27, 2017, the Company announced a distribution of \$1.31 per Class A unit. This distribution, which is related to the second quarter of 2017, will be paid on August 11, 2017 to Class A unitholders of record at the close of business on August 7, 2017.

**Acquisition**

On July 13, 2017, the Company entered into a definitive asset purchase agreement under which the Company will become the new investment adviser to two business development companies: Fifth Street Finance Corp. (NASDAQ: FSC) and Fifth Street Senior Floating Rate Corp. (NASDAQ: FSFR). Oaktree will pay \$320 million in cash to Fifth Street Management LLC upon the closing of the transaction, which is currently expected to occur in the fourth quarter of 2017.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Oaktree Capital Group, LLC and the related notes included within this quarterly report. This discussion contains forward-looking statements that are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. The factors listed under "Risk Factors" and "Forward-Looking Statements" in this quarterly report and under "Risk Factors" in our annual report provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in any forward-looking statements.*

### Business Overview

Oaktree is a leader among global investment managers specializing in alternative investments, with \$99.3 billion in AUM as of June 30, 2017. Our mission is to deliver superior investment results with risk under control and to conduct our business with the highest integrity. We emphasize an opportunistic, value-oriented and risk-controlled approach to investments in distressed debt, corporate debt (including high yield debt and senior loans), control investing, convertible securities, real estate and listed equities. Over more than three decades, we have developed a large and growing client base through our ability to identify and capitalize on opportunities for attractive investment returns in less efficient markets.

We manage assets on behalf of many of the most significant institutional investors in the world. Our clientele includes 75 of the 100 largest U.S. pension plans, 38 states in the United States, over 400 corporations and/or their pension funds, over 350 university, charitable and other endowments and foundations, 16 sovereign wealth funds and over 350 other non-U.S. institutional investors. As measured by AUM, approximately 75% of our clients are invested in two or more different investment strategies, and 38% are invested in four or more. Headquartered in Los Angeles, we serve these clients with over 900 employees and offices in 18 cities worldwide.

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Our revenue flows from the management fees and incentive income generated by the funds that we manage, as well as the investment income earned from the investments we make in our funds, third-party funds and other companies. The management fees that we receive are based on the contractual terms of the relevant fund and are typically calculated as a fixed percentage of the capital commitments (as adjusted for distributions during a fund's liquidation period), drawn capital, cost basis or NAV of the particular fund. Incentive income represents our share (typically 20%) of the investors' profits in most of the closed-end and evergreen funds. Investment income reflects the investment return on a mark-to-market basis and our equity participation on the amounts that we invest in Oaktree and third-party funds, as well as in CLOs and other companies.

### Business Environment and Developments

As a global investment manager, we are affected by a wide range of factors, including the condition of the global economy and financial markets; the relative attractiveness of our investment strategies and investors' demand for them; and regulatory or other governmental policies or actions. Global economic conditions can significantly impact the values of our funds' investments and our ability to make new investments or sell existing investments for our funds. Historically, however, the diversified nature of both our investment strategies and our revenue mix has generally allowed us to benefit from both strong and weak economic environments. Weak economies and the declining financial markets that typically accompany them tend to dampen our revenues from asset-based management fees, investment realizations or price appreciation, but their prospect can present us with opportunities to raise relatively larger amounts of capital for certain strategies, especially Distressed Debt. Additionally, weak financial markets may also present us with more opportunities to make investments for our funds at reduced prices. Conversely, strong financial markets generally increase the value of our funds' investments, which positions us for growth in management fees that are based on asset value, and typically create favorable exit opportunities that enhance the prospect for incentive income and fund-related investment income proceeds. Those same markets may delay or diminish opportunities to deploy capital and thus management fees from certain of our funds.

Most major financial markets rose in the second quarter, amid generally positive global economic data. U.S. equities set record highs in the quarter, despite uncertainty over the ability of the U.S. administration to deliver on its fiscally expansive policies. The S&P 500 Index finished the quarter with a total return of 3.1%, while the Russell 2000 Index returned 2.5%. Non-U.S. equities generally outperformed the U.S. markets, with the MSCI ACWI ex-USA Index returning 6.0%. Emerging market equities returned 6.4%, as measured by the MSCI Emerging

Markets Index, and European equity markets returned 7.7%, as measured by the MSCI Europe Index. As widely expected, the U.S. Federal Reserve increased short-term interest rates in June for a second time this year. Despite this increase, credit markets generally performed well. U.S. high yield bonds, as measured by the Citigroup U.S. High Yield Cash-Pay Capped Index, returned 2.0% for the quarter, while emerging market corporate bonds returned 2.1%, as measured by the JP Morgan Corporate Emerging Markets Bond Index (CEMBI). The 10-year U.S. Treasury yield declined slightly during the quarter, to 2.31%, from 2.40% at the end of March.

Against this backdrop, our incentive-creating closed-end funds delivered an overall blended gross return for the quarter of 3.7%. As of June 30, 2017, AUM was \$99.3 billion and management fee-generating AUM was \$79.8 billion. Gross capital raised was \$1.4 billion and \$11.4 billion for the quarter and the 12 months ended June 30, 2017, respectively. As of June 30, 2017, uncalled capital commitments were \$21.5 billion. Of these commitments, \$12.8 billion were not yet generating management fees (“shadow AUM”). The largest portion of the shadow AUM, at \$8.8 billion, was represented by Oaktree Opportunities Fund Xb (“Opps Xb”). Currently, we do not expect Opps Xb to start its investment period and thus begin generating management fees based on committed capital until sometime in 2018. Most of the remaining \$4.0 billion of shadow AUM charges management fees based on drawn capital or cost basis and therefore we currently expect it will start generating management fees on a gradual basis over multiple years.

### **Understanding Our Results—Consolidation of Oaktree Funds**

Generally accepted accounting principles in the United States (“GAAP”) requires us to consolidate entities in which we have a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. A limited partnership or similar entity is a variable interest entity (“VIE”) if the unaffiliated limited partners do not have substantive kick-out or participating rights. Most of the Oaktree funds are VIEs because they have not granted unaffiliated limited partners substantive kick-out or participating rights. Oaktree consolidates those VIEs in which we are the primary beneficiary. For entities that are not VIEs, consolidation is evaluated through a majority voting interest model. Please see note 2 to our condensed consolidated financial statements for more information.

Most of the Oaktree funds that are VIEs are not consolidated because we are not the primary beneficiary, as our fee arrangements are not deemed to be variable interests and we do not hold any other interests in those funds that are considered to be more than insignificant. However, investment vehicles in which we have a significant investment, such as CLOs and certain Oaktree funds, are consolidated under GAAP (“consolidated funds”). When a CLO or fund is consolidated, we reflect the assets, liabilities, revenues, expenses and cash flows of the consolidated funds on a gross basis, and the majority of the economic interests in those consolidated funds, which are held by third-party investors, are reflected as debt obligations of CLOs or non-controlling interests in consolidated funds in the consolidated financial statements. All of the revenues earned by us as investment manager of the consolidated funds are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by third-party investors, the consolidation of a fund does not impact net income or loss attributable to us.

Certain entities in which we have the ability to exert significant influence, including unconsolidated Oaktree funds for which we act as general partner, are accounted for under the equity method of accounting.

Management makes operating decisions and assesses business performance based on financial and operating metrics and data that are presented without the consolidation of any funds. For a more detailed discussion of the factors that affect the results of operations of our business, please see “—Non-GAAP Results” below.

### **Revenues**

Our business generates three types of revenue: management fees, incentive income and investment income. Management fees are billed monthly or quarterly based on annual rates and are typically earned for each of the funds that we manage. The contractual terms of management fees generally vary by fund structure. Management fees also may include performance-based fees earned from certain open-end and evergreen fund accounts. We also have the opportunity to earn incentive income from most of our closed-end and evergreen funds. Our closed-end funds generally provide that we receive incentive income only after our investors receive the return of all of their contributed capital plus an annual preferred return, typically 8%. Once this occurs, we generally receive as incentive income 80% of all distributions otherwise attributable to our investors, and those investors receive the remaining 20% until we have received, as incentive income, 20% of all such distributions in excess of the contributed capital from the inception of the fund. Thereafter, all such future distributions attributable to our

investors are distributed 80% to those investors and 20% to us as incentive income. Our third revenue source, investment income, represents our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds and companies.

Our consolidated revenues reflect the elimination of all management fees, incentive income and investment income earned by us as investment manager of our consolidated funds. Investment income is presented within the other income (loss) section of our condensed consolidated statements of operations. Please see “Business—Structure and Operation of Our Business—Structure of Funds” in our annual report for a detailed discussion of the structure of our funds.

## Expenses

### Compensation and Benefits

Compensation and benefits expense reflects all compensation-related items not directly related to incentive income, investment income or the vesting of Class A units, OCGH units, OCGH equity value units (“EVUs”) and deferred equity units, and includes salaries, bonuses, compensation based on management fees or a definition of profits, employee benefits, and phantom equity awards. Phantom equity awards represent liability-classified awards subject to vesting and remeasurement at the end of each reporting period. Phantom equity award expense reflects the vesting of those liability-classified awards, the equity distribution declared in the period and changes in the Class A unit trading price.

### Equity-based Compensation

Equity-based compensation expense reflects the non-cash charge associated with grants of Class A units, OCGH units, EVUs and deferred equity units. Our GAAP statements of operations include equity-based compensation expense for units granted both before and after our initial public offering. Our non-GAAP measure of adjusted net income differs from GAAP because it excludes equity-based compensation expense for units granted before our initial public offering (please see “—Non-GAAP Measures—Adjusted Net Income” below).

As of June 30, 2017, there was \$184.8 million of unrecognized compensation expense for GAAP purposes, which is expected to be recognized as expense in our GAAP consolidated financial statements over a weighted average vesting period of 4.1 years. As of June 30, 2017, there was \$166.1 million of unrecognized compensation expense for adjusted net income, with the difference versus the GAAP figure primarily representing unit grants made before our initial public offering. The \$166.1 million is expected to be recognized as expense in adjusted net income over a weighted average vesting period of approximately 4.1 years, as shown in the table below. These amounts are subject to change as a result of future unit grants, including those from our annual bonus awards which are typically issued in the first quarter of the following fiscal year, forfeitures, possible modifications to award terms, changes in the fair value of liability-classified EVUs, and changes in the estimated number of deferred equity units that are expected to vest.

The following table summarizes the estimated amount of equity-based compensation expense to be included in adjusted net income:

Equity-based Compensation Expense Included in ANI	Last Six Months of 2017	2018	2019	2020	2021	Thereafter	Total
				(in millions)			
Estimated expense from equity grants awarded through June 2017 .....	\$ 27.7	\$ 45.6	\$ 38.4	\$ 22.8	\$ 9.8	\$ 21.8	\$ 166.1

### Incentive Income Compensation

Incentive income compensation expense primarily reflects compensation directly related to incentive income, which generally consists of percentage interests (sometimes referred to as “points”) that we grant to our investment professionals associated with the particular fund that generated the incentive income, and secondarily, compensation directly related to investment income. There is no fixed percentage for the incentive income-related portion of this compensation, either by fund or strategy. In general, within a particular strategy more recent funds have a higher percentage of aggregate incentive income compensation expense than do older funds. The percentage that consolidated incentive income compensation expense represents of the particular period’s consolidated incentive income may not be meaningful because (a) the criteria for recognizing income and expense differ under GAAP and thus may result in timing differences, and (b) incentive income is eliminated in consolidation,

whereas no incentive income compensation expense is eliminated in consolidation. For the most meaningful percentage relationship, please see “—Non-GAAP Results” below.

#### *General and Administrative*

General and administrative expense includes costs related to occupancy, outside auditors, tax professionals, legal advisers, research, consultants, travel and entertainment, communications and information services, business process outsourcing, foreign-exchange activity, insurance, changes in the contingent consideration liability, and other general items related directly to the Company’s operations. These expenses are net of amounts borne by fund investors and are not offset by credits attributable to fund investors’ non-controlling interests in consolidated funds.

#### *Depreciation and Amortization*

Depreciation and amortization expense includes costs associated with the purchase of furniture and equipment, capitalized software, office leasehold improvements, corporate aircraft and acquired intangibles. Furniture and equipment and capitalized software costs are depreciated using the straight-line method over the estimated useful life of the asset, which is generally three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the respective estimated useful life or the lease term. Company-owned aircraft are depreciated using the straight-line method over the estimated useful life. Acquired intangibles primarily relate to contractual rights and are amortized over their estimated useful lives, which range from three to seven years.

#### *Consolidated Fund Expenses*

Consolidated fund expenses consist primarily of costs, expenses and fees that are incurred by, or arise out of the operation and activities of or otherwise are related to, our consolidated funds, including, without limitation, travel expenses, professional fees, research and software expenses, insurance, and other costs associated with administering and supporting those funds. Inasmuch as most of these fund expenses are borne by third-party investors, they reduce the investors’ interests in the consolidated funds and have no impact on net income or loss attributable to the Company.

#### ***Other Income (Loss)***

##### *Interest Expense*

Interest expense primarily reflects the interest expense of the consolidated funds, as well as the interest expense of Oaktree and its operating subsidiaries.

##### *Interest and Dividend Income*

Interest and dividend income consists of interest and dividend income earned on the investments held by our consolidated funds, and interest income earned by Oaktree and its operating subsidiaries.

##### *Net Realized Gain (Loss) on Consolidated Funds’ Investments*

Net realized gain (loss) on consolidated funds’ investments consists of realized gains and losses arising from dispositions of investments held by our consolidated funds.

##### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds’ Investments*

Net change in unrealized appreciation (depreciation) on consolidated funds’ investments reflects both unrealized gains and losses on investments held by our consolidated funds and the reversal upon disposition of investments of unrealized gains and losses previously recognized for those investments.

##### *Investment Income*

Investment income represents our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds and companies. Investment income, as reflected in our condensed consolidated statements of operations, excludes investment income earned by us from our consolidated funds.

##### *Other Income (Expense), Net*

Other income (expense), net represents non-operating income or expense, including income related to amounts received for contractually reimbursable costs associated with certain arrangements made in connection with the Highstar acquisition.

## **Income Taxes**

Oaktree is a publicly traded partnership. Because it satisfies the qualifying income test, it is not required to be treated as a corporation for U.S. federal and state income tax purposes; rather, it is taxed as a partnership. Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., which are two of our five Intermediate Holding Companies and wholly-owned subsidiaries, are subject to U.S. federal and state income taxes. The remainder of Oaktree's income is generally not subject to corporate-level taxation.

Oaktree's effective tax rate is dependent on many factors, including the mix of revenues and expenses between our two corporate Intermediate Holding Companies that are subject to income tax and our three other Intermediate Holding Companies that are not; consequently, the effective tax rate is subject to significant variation from period to period. Oaktree's effective tax rate used for interim periods is based on the estimated full year income tax rate. Certain items that cannot be reliably estimated, such as incentive income, are excluded from the estimated annual effective tax rate. The tax expense or benefit stemming from these items is recognized in the same period as the underlying income or expense.

Oaktree's non-U.S. income or loss before taxes is generally not significant in relation to total pre-tax income or loss, and is generally more predictable because, unlike U.S. pre-tax income, it is not significantly impacted by unrealized gains or losses. Non-U.S. tax expense typically represents a disproportionately large percentage of total income tax expense because nearly all of our non-U.S. income or loss is subject to corporate-level income tax, whereas a substantial portion of our U.S.-based income or loss is not subject to corporate-level taxes. In addition, changes in the proportion of non-U.S. pre-tax income to total pre-tax income impact Oaktree's effective tax rate to the extent non-U.S. rates differ from the combined U.S. federal and state tax rate.

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets would be reduced by a valuation allowance if it becomes more likely than not that some portion or all of the deferred tax assets will not be realized.

## **Net Income Attributable to Non-controlling Interests**

Net income attributable to non-controlling interests represents the ownership interests that third parties hold in entities that are consolidated in our financial statements. These interests fall into two categories:

- **Net Income Attributable to Non-controlling Interests in Consolidated Funds.** This category represents the economic interests of the unaffiliated investors in the consolidated funds, as well as the equity interests held by third-party investors in CLOs that had not yet priced as of the respective period end. Those interests are primarily driven by the investment performance of the consolidated funds. In comparison to net income, this measure excludes our operating results and other items solely attributable to the Company; and
- **Net Income Attributable to Non-controlling Interests in Consolidated Subsidiaries.** This category primarily represents the economic interest in the Oaktree Operating Group owned by OCGH ("OCGH non-controlling interest"), as well as the economic interest in certain consolidated subsidiaries held by third parties. The OCGH non-controlling interest is determined at the Oaktree Operating Group level based on the weighted average proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Inasmuch as the number of outstanding Oaktree Operating Group units corresponds with the total number of outstanding Class A and OCGH units, changes in the economic interest held by the OCGH unitholders are driven by our additional issuances of Class A and OCGH units, as well as repurchases and forfeitures of, and exchanges between, Class A and OCGH units. Certain of our expenses, such as income tax and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders. Please see note 11 to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information on the economic interest in the Oaktree Operating Group owned by OCGH.

## **Non-GAAP Measures**

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds. The data most important to management in assessing our performance are adjusted net income, adjusted net income-OCG, distributable earnings, distributable earnings-OCG, fee-related earnings and fee-related earnings-OCG. For a detailed reconciliation of the non-GAAP results of operations to our condensed consolidated statements of operations, please see “—Non-GAAP Results” below.

We monitor certain operating metrics that are either common to the alternative asset management industry or that we believe provide important data regarding our business. As described below, these operating metrics include assets under management, management fee-generating assets under management, incentive-creating assets under management, accrued incentives (fund level), incentives created (fund level) and uncalled capital commitments.

### ***Adjusted Net Income***

We use adjusted net income (“ANI”) to help evaluate the financial performance of, and make resource allocations and other operating decisions for, our investment management business. The components of revenues (“adjusted revenues”) and expenses (“adjusted expenses”) used in the determination of ANI do not give effect to the consolidation of the funds that we manage. Adjusted revenues include investment income (loss) that is classified in other income (loss) in the GAAP statements of operations. Adjusted revenues and expenses also reflect Oaktree’s proportionate economic interest in Highstar, whereby amounts received for contractually reimbursable costs are classified for ANI as expenses and under GAAP as other income. In addition, ANI excludes the effect of (a) non-cash equity-based compensation expense related to unit grants made before our initial public offering, (b) acquisition-related items, including amortization of intangibles and changes in the contingent consideration liability, (c) income taxes, (d) other income or expenses applicable to OCG or its Intermediate Holding Companies, and (e) the adjustment for non-controlling interests. Moreover, gains and losses resulting from foreign-currency transactions and hedging activities under GAAP are recognized as general and administrative expense whether realized or unrealized in the current period, but for ANI unrealized gains and losses from foreign-currency hedging activities are deferred until realized, at which time they are included in the same revenue or expense line item as the underlying exposure that was hedged. Additionally, for ANI, foreign-currency transaction gains and losses are included in other income (expense), net. Incentive income and incentive income compensation expense are included in ANI when the underlying fund distributions are known or knowable as of the respective quarter end, which may be later than the time at which the same revenue or expense is included in the GAAP statements of operations, for which the revenue standard is fixed or determinable and the expense standard is probable and reasonably estimable. CLO investments are carried at fair value for GAAP reporting, whereas for ANI they are carried at amortized cost, subject to any impairment charges. Investment income on CLO investments is recognized in ANI when cash distributions are received. Cash distributions are allocated between income and return of capital based on the effective yield method. ANI is calculated at the Operating Group level.

Beginning with the second quarter of 2017, the definition of ANI was modified with respect to third-party placement costs associated with closed-end funds and liability-classified EVUs to conform to the GAAP treatment. Under GAAP, placement costs are expensed as incurred and liability-classified EVUs are remeasured as of each reporting date. Previously for ANI, placement costs were capitalized and amortized in proportion to the associated management fee stream, and liability-classified EVUs were treated as equity-classified awards. All prior periods have been recast for these changes.

Among other factors, our accounting policy for recognizing incentive income and the inclusion of non-cash equity-based compensation expense related to unit grants made after our initial public offering will likely make our calculation of ANI not directly comparable to economic net income or other similarly named measures utilized by other asset managers.

We calculate adjusted net income-OCG, or adjusted net income per Class A unit, a non-GAAP performance measure, to provide Class A unitholders with a measure that shows the portion of ANI attributable to their ownership. Adjusted net income-OCG represents ANI including the effect of (a) the OCGH non-controlling interest, (b) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) any Operating Group income taxes attributable to OCG. Two of our Intermediate Holding Companies incur federal and state income taxes for their shares of Operating Group income. Generally, those two corporate entities hold an interest in the Operating Group’s management fee-generating assets and a small portion

of its incentive and investment income-generating assets. As a result, historically our fee-related earnings and investment income arising from our one-fifth ownership stake in DoubleLine Capital LP and its affiliates (collectively, "DoubleLine") generally have been subject to corporate-level taxation, and most of our incentive income and other investment income generally has not been subject to corporate-level taxation. Thus, the blended effective income tax rate has generally tended to be higher to the extent that fee-related earnings and DoubleLine-related investment income represented a larger proportion of our ANI. Other factors may also affect income tax expense and the effective income tax rate, and there can be no assurance that this historical relationship will continue going forward.

### ***Distributable Earnings***

We use distributable earnings to help evaluate the financial performance of, and make resource allocations and other operating decisions for, our business. Distributable earnings is a non-GAAP performance measure derived from ANI that we use to measure our earnings at the Operating Group level without the effects of the consolidated funds for the purpose of, among other things, assisting in the determination of equity distributions from the Operating Group. However, the declaration, payment and determination of the amount of equity distributions, if any, is at the sole discretion of our board of directors, which may change our distribution policy at any time.

Distributable earnings differs from ANI in that it excludes investment income or loss and includes the receipt of investment income or loss from distributions by our investments in funds and companies. Additionally, any impairment charges on our CLO investments included in ANI are, for distributable earnings purposes, amortized over the remaining investment period of the respective CLO to align with the timing of expected cash flows. In addition, distributable earnings differs from ANI in that it is net of Operating Group income taxes and excludes non-cash equity-based compensation expense.

Investment income or loss, which for equity-method investments represents our pro-rata share of income or loss, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds and companies, is largely non-cash in nature. By excluding investment income or loss, which is not directly available to fund our operations or make equity distributions, and including the portion of distributions from Oaktree and non-Oaktree funds to us that represents the income or loss component of the distributions and not a return of our capital contributions, as well as distributions from our investments in companies, distributable earnings aids us in measuring amounts that are actually available to meet our obligations under the tax receivable agreement and our liabilities for expenses incurred at OCG and the Intermediate Holding Companies, as well as for distributions to Class A and OCGH unitholders.

Distributable earnings-OCG, or distributable earnings per Class A unit, is a non-GAAP performance measure calculated to provide Class A unitholders with a measure that shows the portion of distributable earnings attributable to their ownership. Distributable earnings-OCG represents distributable earnings, including the effect of (a) the OCGH non-controlling interest, (b) expenses, such as current income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) amounts payable under the tax receivable agreement. The income tax expense included in distributable earnings-OCG represents the implied current provision for income taxes calculated using an approach similar to that which is used in calculating the income tax provision for adjusted net income-OCG.

### ***Fee-related Earnings***

Fee-related earnings is a non-GAAP performance measure that we use to monitor the baseline earnings of our business. Fee-related earnings is comprised of management fees less operating expenses other than incentive income compensation expense and non-cash equity-based compensation expense. Fee-related earnings is considered baseline because it excludes all non-management fee revenue sources (such as earnings from our minority equity interest in DoubleLine) and applies all cash compensation and benefits other than incentive income compensation expense, as well as all general and administrative expenses, to management fees, even though those expenses also support the generation of incentive and investment income. Fee-related earnings is presented before income taxes.

Fee-related earnings-OCG, or fee-related earnings per Class A unit, is a non-GAAP performance measure calculated to provide Class A unitholders with a measure that shows the portion of fee-related earnings attributable to their ownership. Fee-related earnings-OCG represents fee-related earnings including the effect of (a) the OCGH non-controlling interest, (b) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) any Operating Group income taxes attributable to OCG. Fee-related earnings-OCG income taxes are calculated excluding any incentive income or investment income (loss).

## **Assets Under Management**

AUM generally refers to the assets we manage and equals the NAV of the assets we manage, the leverage on which management fees are charged, the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments and the aggregate par value of collateral assets and principal cash held by our CLOs. Our AUM includes amounts for which we charge no management fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics below may not be directly comparable to the AUM metrics of other investment managers.

- **Management Fee-generating Assets Under Management.** Management fee-generating AUM is a forward-looking metric and reflects the beginning AUM on which we will earn management fees in the following quarter. Our closed-end funds typically pay management fees based on committed capital, drawn capital or cost basis during the investment period, without regard to changes in NAV, and during the liquidation period on the lesser of (a) total funded capital or (b) the cost basis of assets remaining in the fund. The annual management fee rate generally remains unchanged from the investment period through the liquidation period. Our open-end and evergreen funds typically pay management fees based on their NAV, and our CLOs pay management fees based on the aggregate par value of collateral assets and principal cash held by them, as defined in the applicable CLO indentures.
- **Incentive-creating Assets Under Management.** Incentive-creating AUM refers to the AUM that may eventually produce incentive income. It represents the NAV of our funds for which we are entitled to receive an incentive allocation, excluding CLOs and investments made by us and our employees and directors (which are not subject to an incentive allocation). All funds for which we are entitled to receive an incentive allocation are included in incentive-creating AUM, regardless of whether or not they are currently above their preferred return or high-water mark and therefore generating incentives. Incentive-creating AUM does not include undrawn capital commitments.

## **Accrued Incentives (Fund Level) and Incentives Created (Fund Level)**

Our funds record as accrued incentives the incentive income that would be paid to us if the funds were liquidated at their reported values as of the date of the financial statements. Incentives created (fund level) refers to the gross amount of potential incentives generated by the funds during the period. We refer to the amount of accrued incentives recognized as revenue by us as incentive income. Amounts recognized by us as incentive income are no longer included in accrued incentives (fund level), the term we use for remaining fund-level accruals. The amount of incentives created may fluctuate substantially as a result of changes in the fair value of the underlying investments of the fund, as well as incentives created in excess of our typical 20% share due to catch-up allocations for applicable closed-end funds. Generally speaking, while in the catch-up layer, approximately 80% of any increase or decrease, respectively, in the fund's NAV results in a commensurate amount of positive or negative incentives created (fund level).

The same performance and market risks inherent in incentives created (fund level) affect the ability to ultimately realize accrued incentives (fund level). One consequence of the accounting method we follow for incentives created (fund level) is that accrued incentives (fund level) is an off-balance sheet metric, rather than being an on-balance sheet receivable that could require reduction if fund performance suffers. We track accrued incentives (fund level) because it provides an indication of potential future value, though the timing and ultimate realization of that value are uncertain.

Incentives created (fund level), incentive income and accrued incentives (fund level) are presented gross, without deduction for direct compensation expense that is owed to our investment professionals associated with the particular fund when we earn the incentive income. We call that charge "incentive income compensation expense." Incentive income compensation expense varies by the investment strategy and vintage of the particular fund, among many other factors.

Incentives created (fund level) often reflects investments measured at fair value and therefore is subject to risk of substantial fluctuation by the time the underlying investments are liquidated. We earn the incentive income, if any, that the fund is then obligated to pay us with respect to our incentive interest (generally 20%) in the profits of our unaffiliated investors, subject to an annual preferred return of typically 8%. Although GAAP currently allows the equivalent of incentives created (fund level) to be recognized as revenue by us under Method 2, we follow the Method 1 approach offered by GAAP. Our use of Method 1 reduces by a substantial degree the possibility that revenue recognized by us would be reversed in a subsequent period. For purposes of ANI and distributable

earnings, we recognize incentive income when the underlying fund distributions are known or knowable as of the respective quarter end, as opposed to the fixed or determinable standard of Method 1. We track incentives created (fund level) because it provides an indication of the value for us currently being created by our investment activities and facilitates comparability with those companies in our industry that utilize the alternative accrual-based Method 2 for recognizing incentive income in their financial statements.

***Uncalled Capital Commitments***

Uncalled capital commitments represent undrawn capital commitments by partners (including Oaktree as general partner) of our closed-end funds through their investment periods and certain evergreen funds. If a closed-end fund distributes capital during its investment period, that capital is typically subject to possible recall, in which case it is included in uncalled capital commitments.

***Invested Capital***

Invested capital reflects deployed capital, whether involving drawn or recycled equity capital, or borrowings from fund-level credit facilities. This metric is used in connection with incentive-creating closed-end funds and certain evergreen funds.

## GAAP Consolidated Results of Operations

The following table sets forth our unaudited condensed consolidated statements of operations:

Condensed Consolidated Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Revenues:				
Management fees .....	\$ 180,028	\$ 195,015	\$ 360,956	\$ 393,568
Incentive income .....	454,027	87,701	562,684	143,638
Total revenues .....	<u>634,055</u>	<u>282,716</u>	<u>923,640</u>	<u>537,206</u>
Expenses:				
Compensation and benefits .....	(102,002)	(103,002)	(206,489)	(211,407)
Equity-based compensation .....	(14,748)	(14,726)	(29,701)	(28,622)
Incentive income compensation .....	(266,556)	(35,461)	(301,164)	(45,268)
Total compensation and benefits expense .....	<u>(383,306)</u>	<u>(153,189)</u>	<u>(537,354)</u>	<u>(285,297)</u>
General and administrative .....	(34,388)	(32,949)	(66,607)	(80,780)
Depreciation and amortization .....	(3,004)	(4,048)	(6,828)	(8,209)
Consolidated fund expenses .....	(2,728)	(1,462)	(5,199)	(2,546)
Total expenses .....	<u>(423,426)</u>	<u>(191,648)</u>	<u>(615,988)</u>	<u>(376,832)</u>
Other income (loss):				
Interest expense .....	(44,251)	(26,730)	(93,021)	(54,435)
Interest and dividend income .....	51,914	37,138	99,874	73,408
Net realized gain (loss) on consolidated funds' investments .....	235	6,682	(1,637)	10,083
Net change in unrealized appreciation (depreciation) on consolidated funds' investments .....	28,453	(5,301)	53,131	(25,973)
Investment income .....	49,106	41,000	99,557	70,447
Other income (expense), net .....	4,898	5,548	9,561	11,349
Total other income .....	<u>90,355</u>	<u>58,337</u>	<u>167,465</u>	<u>84,879</u>
Income before income taxes .....	300,984	149,405	475,117	245,253
Income taxes .....	(5,541)	(8,571)	(17,843)	(21,251)
Net income .....	<u>295,443</u>	<u>140,834</u>	<u>457,274</u>	<u>224,002</u>
Less:				
Net income attributable to non-controlling interests in consolidated funds .....	(3,861)	(7,319)	(13,553)	(2,375)
Net income attributable to non-controlling interests in consolidated subsidiaries .....	(174,258)	(84,468)	(271,482)	(144,502)
Net income attributable to Oaktree Capital Group, LLC .....	<u>\$ 117,324</u>	<u>\$ 49,047</u>	<u>\$ 172,239</u>	<u>\$ 77,125</u>

### Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

#### Revenues

##### Management Fees

Management fees decreased \$15.0 million, or 7.7%, to \$180.0 million for the three months ended June 30, 2017, from \$195.0 million for the three months ended June 30, 2016. The decrease reflected an aggregate decline of \$23.5 million primarily attributable to unconsolidated closed-end funds in liquidation, partially offset by an aggregate increase of \$8.5 million principally from closed-end funds that pay management fees based on drawn capital, NAV or cost basis.

### *Incentive Income*

Incentive income increased \$366.3 million, to \$454.0 million for the three months ended June 30, 2017, from \$87.7 million for the three months ended June 30, 2016. The increase was primarily attributable to the sale of AdvancePierre Foods in the current-year period, resulting in \$427.8 million of incentive income from Oaktree Principal Opportunities Fund IV ("POF IV"), which started paying incentives in the quarter and benefited from the catch-up layer of the European-style waterfall whereby 80% of a distribution goes to Oaktree and 20% to the investors.

### **Expenses**

#### *Compensation and Benefits*

Compensation and benefits expense decreased \$1.0 million, or 1.0%, to \$102.0 million for the three months ended June 30, 2017, from \$103.0 million for the three months ended June 30, 2016.

#### *Incentive Income Compensation*

Incentive income compensation expense increased \$231.1 million, to \$266.6 million for the three months ended June 30, 2017, from \$35.5 million for the three months ended June 30, 2016. The increase reflected growth in incentive income and a higher overall compensation percentage in the current-year period, as a result of incremental incentive interests awarded over the life of POF IV due to changes in senior investment personnel.

#### *General and Administrative*

General and administrative expense increased \$1.5 million, or 4.6%, to \$34.4 million for the three months ended June 30, 2017, from \$32.9 million for the three months ended June 30, 2016. Excluding the impact of foreign currency-related items, which stemmed primarily from foreign-currency hedges used to economically hedge our non-U.S. dollar denominated revenues and expenses, general and administrative expense increased \$3.2 million, or 10.6%, to \$33.4 million from \$30.2 million, primarily reflecting changes in the contingent consideration liability.

#### *Depreciation and Amortization*

Depreciation and amortization expense decreased \$1.0 million, or 25.0%, to \$3.0 million for the three months ended June 30, 2017, from \$4.0 million for the three months ended June 30, 2016, primarily reflecting the final amortization of certain leasehold improvements.

#### *Consolidated Fund Expenses*

Consolidated fund expenses increased \$1.2 million, or 80.0%, to \$2.7 million for the three months ended June 30, 2017, from \$1.5 million for the three months ended June 30, 2016. The increase primarily reflected higher professional fees and other costs of our consolidated funds.

### **Other Income (Loss)**

#### *Interest Expense*

Interest expense increased \$17.6 million, or 65.9%, to \$44.3 million for the three months ended June 30, 2017, from \$26.7 million for the three months ended June 30, 2016. The increase was attributable to our consolidated funds.

#### *Interest and Dividend Income*

Interest and dividend income increased \$14.8 million, or 39.9%, to \$51.9 million for the three months ended June 30, 2017, from \$37.1 million for the three months ended June 30, 2016. The increase was primarily attributable to our consolidated funds.

#### *Net Realized Gain (Loss) on Consolidated Funds' Investments*

Net realized gain on consolidated funds' investments decreased to \$0.2 million for the three months ended June 30, 2017, from \$6.7 million for the three months ended June 30, 2016. The decrease reflected our consolidated funds' performance in each period.

### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

Net change in unrealized appreciation (depreciation) on consolidated funds' investments increased to a gain of \$28.5 million for the three months ended June 30, 2017, from a loss of \$5.3 million for the three months ended June 30, 2016. Excluding the impact of the reversal of net realized gain on consolidated funds' investments, net change in unrealized appreciation (depreciation) on consolidated funds' investments increased to a net gain of \$28.7 million for the three months ended June 30, 2017, from \$1.4 million for the three months ended June 30, 2016, reflecting our consolidated funds' performance in each period.

### *Investment Income*

Investment income increased \$8.1 million, or 19.8%, to \$49.1 million for the three months ended June 30, 2017, from \$41.0 million for the three months ended June 30, 2016. The increase primarily reflected higher overall returns on our fund investments. DoubleLine accounted for investment income of \$18.9 million and \$16.6 million in the current and prior-year periods, respectively, of which performance fees accounted for \$2.5 million and \$1.5 million, respectively.

### *Other Income (Expense), Net*

Other income (expense), net decreased \$0.6 million, or 10.9%, to income of \$4.9 million for the three months ended June 30, 2017, from \$5.5 million for the three months ended June 30, 2016. The decrease primarily reflected lower amounts received for contractually reimbursable costs associated with Highstar.

### *Income Taxes*

Income taxes decreased \$3.1 million, or 36.0%, to \$5.5 million for the three months ended June 30, 2017, from \$8.6 million for the three months ended June 30, 2016. The decrease reflected a lower effective tax rate for the three months ended June 30, 2017, partially offset by higher pre-tax income attributable to Class A unitholders. The effective tax rates applicable to Class A unitholders for the three months ended June 30, 2017 and 2016 were 4% and 13%, respectively, resulting from an estimated full-year effective rate of 11% and 21%, respectively. The effective tax rate used for interim fiscal periods is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with the tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods, because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and may vary significantly within or between years. Please see "— Understanding Our Results—Consolidation of Oaktree Funds."

### ***Net Income Attributable to Non-controlling Interests in Consolidated Funds***

Net income attributable to non-controlling interests in consolidated funds decreased \$3.4 million, or 46.6%, to \$3.9 million for the three months ended June 30, 2017, from \$7.3 million for the three months ended June 30, 2016. The decrease primarily reflected our consolidated funds' performance attributable to third-party investors in each period.

### ***Net Income Attributable to Oaktree Capital Group, LLC***

Net income attributable to Oaktree Capital Group, LLC increased \$68.3 million, to \$117.3 million for the three months ended June 30, 2017, from \$49.0 million for the three months ended June 30, 2016. The increase was primarily attributable to higher operating profits, driven by net incentive income.

### ***Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

#### ***Revenues***

##### ***Management Fees***

Management fees decreased \$32.6 million, or 8.3%, to \$361.0 million for the six months ended June 30, 2017, from \$393.6 million for the six months ended June 30, 2016. The decrease reflected an aggregate decline of \$47.1 million primarily attributable to unconsolidated closed-end funds in liquidation, partially offset by an aggregate increase of \$14.5 million principally from additional capital commitments to Oaktree Real Estate Opportunities Fund VII ("ROF VII") and closed-end funds that pay management fees based on drawn capital, NAV or cost basis.

### *Incentive Income*

Incentive income increased \$419.1 million, to \$562.7 million for the six months ended June 30, 2017, from \$143.6 million for the six months ended June 30, 2016. The increase was primarily attributable to the sale of AdvancePierre Foods in the current-year period, resulting in \$427.8 million of incentive income from POF IV.

### **Expenses**

#### *Compensation and Benefits*

Compensation and benefits expense decreased \$4.9 million, or 2.3%, to \$206.5 million for the six months ended June 30, 2017, from \$211.4 million for the six months ended June 30, 2016.

#### *Equity-based Compensation*

Equity-based compensation expense increased \$1.1 million, or 3.8%, to \$29.7 million for the six months ended June 30, 2017, from \$28.6 million for the six months ended June 30, 2016.

#### *Incentive Income Compensation*

Incentive income compensation expense increased \$255.9 million, to \$301.2 million for the six months ended June 30, 2017, from \$45.3 million for the six months ended June 30, 2016. The increase was primarily attributable to the growth in incentive income and a higher overall compensation percentage in 2017, as a result of incremental incentive interests awarded over the life of POF IV due to changes in senior investment personnel.

#### *General and Administrative*

General and administrative expense decreased \$14.2 million, or 17.6%, to \$66.6 million for the six months ended June 30, 2017, from \$80.8 million for the six months ended June 30, 2016. Excluding the impact of foreign currency-related items, which stemmed primarily from foreign-currency hedges used to economically hedge our non-U.S. dollar denominated revenues and expenses, general and administrative expense decreased \$1.5 million, or 2.2%, to \$67.6 million from \$69.1 million, primarily reflecting lower placement costs associated with closed-end funds, partially offset by changes in the contingent consideration liability.

#### *Depreciation and Amortization*

Depreciation and amortization expense decreased \$1.4 million, or 17.1%, to \$6.8 million for the six months ended June 30, 2017, from \$8.2 million for the six months ended June 30, 2016, primarily reflecting the final amortization of certain leasehold improvements.

#### *Consolidated Fund Expenses*

Consolidated fund expenses increased \$2.7 million, to \$5.2 million for the six months ended June 30, 2017, from \$2.5 million for the six months ended June 30, 2016. The increase primarily reflected higher professional fees and other costs of our consolidated funds.

### **Other Income (Loss)**

#### *Interest Expense*

Interest expense increased \$38.6 million, or 71.0%, to \$93.0 million for the six months ended June 30, 2017, from \$54.4 million for the six months ended June 30, 2016. The increase was attributable to our consolidated funds.

#### *Interest and Dividend Income*

Interest and dividend income increased \$26.5 million, or 36.1%, to \$99.9 million for the six months ended June 30, 2017, from \$73.4 million for the six months ended June 30, 2016. The increase was primarily attributable to our consolidated funds.

### *Net Realized Gain (Loss) on Consolidated Funds' Investments*

Net realized gain (loss) on consolidated funds' investments decreased to a loss of \$1.6 million for the six months ended June 30, 2017, from a gain of \$10.1 million for the six months ended June 30, 2016. The decrease reflected our consolidated funds' performance in each period.

### *Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments*

Net change in unrealized appreciation (depreciation) on consolidated funds' investments increased to a gain of \$53.1 million for the six months ended June 30, 2017, from a loss of \$26.0 million for the six months ended June 30, 2016. Excluding the impact of the reversal of net realized gain on consolidated funds' investments, net change in unrealized appreciation (depreciation) on consolidated funds' investments increased to a net gain of \$51.5 million for the six months ended June 30, 2017, from a net loss of \$15.9 million for the six months ended June 30, 2016, reflecting our consolidated funds' performance in each period.

### *Investment Income*

Investment income increased \$29.2 million, or 41.5%, to \$99.6 million for the six months ended June 30, 2017, from \$70.4 million for the six months ended June 30, 2016. The increase primarily reflected higher overall returns on our fund investments. DoubleLine accounted for investment income of \$34.7 million and \$31.6 million in the six months ended June 30, 2017 and 2016, respectively, of which performance fees accounted for \$2.7 million and \$2.0 million, respectively.

### *Other Income (Expense), Net*

Other income (expense), net decreased \$1.7 million, or 15.0%, to income of \$9.6 million for the six months ended June 30, 2017, from \$11.3 million for the six months ended June 30, 2016. The decrease primarily reflected lower amounts received for contractually reimbursable costs associated with Highstar.

### *Income Taxes*

Income taxes decreased \$3.5 million, or 16.4%, to \$17.8 million for the six months ended June 30, 2017, from \$21.3 million for the six months ended June 30, 2016. The decrease reflected a lower effective tax rate for the six months ended June 30, 2017, partially offset by higher pre-tax income attributable to Class A unitholders. The effective tax rates applicable to Class A unitholders for the six months ended June 30, 2017 and 2016 were 9% and 20%, respectively. The effective tax rate used for interim fiscal periods is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with the tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods, because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and may vary significantly within or between years. Please see "—Understanding Our Results—Consolidation of Oaktree Funds."

### ***Net Income Attributable to Non-controlling Interests in Consolidated Funds***

Net income attributable to non-controlling interests in consolidated funds increased \$11.2 million, to \$13.6 million for the six months ended June 30, 2017, from \$2.4 million for the six months ended June 30, 2016. The increase primarily reflected our consolidated funds' performance attributable to third-party investors in each period.

### ***Net Income Attributable to Oaktree Capital Group, LLC***

Net income attributable to Oaktree Capital Group, LLC increased \$95.1 million, to \$172.2 million for the six months ended June 30, 2017, from \$77.1 million for the six months ended June 30, 2016. The increase was primarily attributable to higher operating profits, driven by net incentive income.

## Non-GAAP Financial Data

Oaktree presents certain revenues and financial measures, including measures that are calculated and presented on a basis other than GAAP (“non-GAAP”) such as adjusted revenues, adjusted net income, adjusted net income per Class A unit, distributable earnings revenues, distributable earnings, distributable earnings per Class A unit, fee-related earnings revenues, fee-related earnings and fee-related earnings per Class A unit. These measures should be considered in addition to, and not as a substitute for or superior to, net income, net income per Class A unit or other financial measures calculated in accordance with GAAP.

The following table presents non-GAAP financial data:

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2017	2016	2017	2016
(in thousands, except per unit data or as otherwise indicated)				
<b>Non-GAAP Results: <sup>(1)</sup></b>				
Adjusted revenues .....	\$ 704,362	\$ 332,822	\$ 1,095,549	\$ 645,757
Adjusted net income .....	281,654	141,975	442,818	240,349
Adjusted net income-OCG .....	111,106	49,411	164,847	76,895
Distributable earnings revenues .....	693,060	306,660	1,068,622	630,999
Distributable earnings .....	282,490	126,296	439,529	245,317
Distributable earnings-OCG .....	103,400	44,393	157,684	83,538
Fee-related earnings revenues .....	186,314	197,450	371,879	398,720
Fee-related earnings .....	52,601	63,419	100,738	119,074
Fee-related earnings-OCG .....	19,613	23,328	37,405	43,689
<b>Per Class A Unit:</b>				
Adjusted net income .....	\$ 1.73	\$ 0.79	\$ 2.59	\$ 1.24
Distributable earnings .....	1.61	0.71	2.48	1.34
Fee-related earnings .....	0.31	0.37	0.59	0.70
Weighted average number of Operating Group units outstanding ...	155,933	155,057	155,303	154,433
Weighted average number of Class A units outstanding .....	64,193	62,617	63,611	62,256
<b>Operating Metrics:</b>				
<i>Assets under management (in millions):</i>				
Assets under management .....	\$ 99,260	\$ 98,124	\$ 99,260	\$ 98,124
Management fee-generating assets under management .....	79,807	79,516	79,807	79,516
Incentive-creating assets under management .....	30,826	30,372	30,826	30,372
Uncalled capital commitments .....	21,468	22,817	21,468	22,817
<i>Accrued incentives (fund level):</i>				
Incentives created (fund level) .....	168,602	171,142	370,120	124,872
Incentives created (fund level), net of associated incentive income compensation expense .....	85,093	75,783	181,629	58,792
Accrued incentives (fund level) .....	1,779,578	1,525,854	1,779,578	1,525,854
Accrued incentives (fund level), net of associated incentive income compensation expense .....	866,650	771,253	866,650	771,253

(1) Beginning with the second quarter of 2017, the definition of adjusted net income was modified with respect to third-party placement costs associated with closed-end funds and liability-classified EVUs to conform to the GAAP treatment. Under GAAP, placement costs are expensed as incurred and liability-classified EVUs are remeasured as of each reporting date. Previously for adjusted net income, placement costs were capitalized and amortized in proportion to the associated management fee stream, and liability-classified EVUs were treated as equity-classified awards. All prior periods have been recast for these changes.

## Operating Metrics

We monitor certain operating metrics that are either common to the alternative asset management industry or that we believe provide important data regarding our business. These operating metrics include AUM, management fee-generating AUM, incentive-creating AUM, incentives created (fund level), accrued incentives (fund level) and uncalled capital commitments.

### Assets Under Management

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
	(in millions)		
<b>Assets Under Management:</b>			
Closed-end funds .....	\$ 58,323	\$ 59,848	\$ 59,576
Open-end funds .....	35,628	35,125	33,667
Evergreen funds .....	5,309	5,340	4,881
Total .....	<u>\$ 99,260</u>	<u>\$ 100,313</u>	<u>\$ 98,124</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
<b>Change in Assets Under Management:</b>				
Beginning balance .....	\$ 100,313	\$ 96,874	\$ 100,504	\$ 97,359
Closed-end funds:				
Capital commitments/other <sup>(1)</sup> .....	54	1,889	1,148	2,755
Distributions for a realization event/other <sup>(2)</sup> .....	(3,323)	(1,220)	(5,876)	(3,234)
Change in uncalled capital commitments for funds entering or in liquidation <sup>(3)</sup> .....	116	13	147	13
Foreign-currency translation .....	441	(188)	547	153
Change in market value <sup>(4)</sup> .....	1,015	350	1,885	715
Change in applicable leverage .....	172	(349)	368	(256)
Open-end funds:				
Contributions .....	1,330	1,002	3,337	1,737
Redemptions .....	(1,864)	(1,225)	(4,841)	(2,996)
Foreign-currency translation .....	354	(126)	461	96
Change in market value <sup>(4)</sup> .....	683	1,008	1,566	1,628
Evergreen funds:				
Contributions or new capital commitments .....	26	82	33	148
Redemptions or distributions/other .....	(176)	(208)	(282)	(267)
Foreign-currency translation .....	1	(5)	(1)	(8)
Change in market value <sup>(4)</sup> .....	118	227	264	281
Ending balance .....	<u>\$ 99,260</u>	<u>\$ 98,124</u>	<u>\$ 99,260</u>	<u>\$ 98,124</u>

(1) These amounts represent capital commitments, as well as the aggregate par value of collateral assets and principal cash related to new CLO formations.

(2) These amounts represent distributions for a realization event, tax-related distributions, reductions in the par value of collateral assets and principal cash resulting from the repayment of debt as return of principal by CLOs, and callable distributions at the end of the investment period.

(3) The change in uncalled capital commitments reflects declines attributable to funds entering their liquidation periods, as well as capital contributions to funds in their liquidation periods for deferred purchase obligations or other reasons.

(4) The change in market value reflects the change in NAV of our funds, less management fees and other fund expenses, as well as changes in the aggregate par value of collateral assets and principal cash held by CLOs.

## Management Fee-generating Assets Under Management

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
	(in millions)		
<b>Management Fee-generating Assets Under Management:</b>			
Closed-end funds:			
Senior Loans .....	\$ 7,943	\$ 7,721	\$ 6,909
Other closed-end funds .....	32,048	32,340	35,096
Open-end funds .....	35,429	34,930	33,597
Evergreen funds .....	4,387	4,338	3,914
Total .....	<u>\$ 79,807</u>	<u>\$ 79,329</u>	<u>\$ 79,516</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
<b>Change in Management Fee-generating Assets Under Management:</b>				
Beginning balance .....	\$ 79,329	\$ 79,908	\$ 79,767	\$ 78,897
Closed-end funds:				
Capital commitments to funds that pay fees based on committed capital/other <sup>(1)</sup> .....	26	326	43	1,012
Capital drawn by funds that pay fees based on drawn capital, NAV or cost basis .....	449	380	776	581
Change attributable to funds in liquidation <sup>(2)</sup> .....	(893)	(1,462)	(1,847)	(1,843)
Change in uncalled capital commitments for funds entering or in liquidation that pay fees based on committed capital <sup>(3)</sup> .....	—	13	—	13
Distributions by funds that pay fees based on NAV/other <sup>(4)</sup> .....	(258)	(101)	(423)	(214)
Foreign-currency translation .....	402	(181)	484	48
Change in market value <sup>(5)</sup> .....	34	122	122	207
Change in applicable leverage .....	170	(232)	342	(88)
Open-end funds:				
Contributions .....	1,329	1,005	3,211	1,740
Redemptions .....	(1,863)	(1,231)	(4,834)	(3,003)
Foreign-currency translation .....	354	(126)	461	96
Change in market value .....	679	1,010	1,557	1,629
Evergreen funds:				
Contributions or capital drawn by funds that pay fees based on drawn capital or NAV .....	118	90	177	427
Redemptions or distributions .....	(179)	(209)	(269)	(237)
Change in market value .....	110	204	240	251
Ending balance .....	<u>\$ 79,807</u>	<u>\$ 79,516</u>	<u>\$ 79,807</u>	<u>\$ 79,516</u>

- (1) These amounts represent capital commitments to funds that pay fees based on committed capital, as well as the aggregate par value of collateral assets and principal cash related to new CLO formations.
- (2) These amounts represent the change for funds that pay fees based on the lesser of funded capital or cost basis during the liquidation period, as well as recallable distributions at the end of the investment period. For most closed-end funds, management fees are charged during the liquidation period on the lesser of (a) total funded capital or (b) the cost basis of assets remaining in the fund, with the cost basis of assets generally calculated by excluding cash balances. Thus, changes in fee basis during the liquidation period are not dependent on distributions made from the fund; rather, they are tied to the cost basis of the fund's investments, which typically declines as the fund sells assets.
- (3) The change in uncalled capital commitments reflects declines attributable to funds entering their liquidation periods, as well as capital contributions to funds in their liquidation periods for deferred purchase obligations or other reasons.
- (4) These amounts represent distributions by funds that pay fees based on NAV, as well as reductions in the par value of collateral assets and principal cash resulting from the repayment of debt as return of principal by CLOs.
- (5) The change in market value reflects certain funds that pay management fees based on NAV and leverage, as applicable, as well as changes in the aggregate par value of collateral assets and principal cash held by CLOs.

A reconciliation of AUM to management fee-generating AUM is set forth below:

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
<b>Reconciliation of Assets Under Management to Management Fee-generating Assets Under Management:</b>			
Assets under management .....	\$ 99,260	\$ 100,313	\$ 98,124
Difference between assets under management and committed capital or the lesser of funded capital or cost basis for applicable closed-end funds <sup>(1)</sup> .....	(2,585)	(3,773)	(2,392)
Undrawn capital commitments to closed-end funds that have not yet commenced their investment periods .....	(9,560)	(10,542)	(9,278)
Undrawn capital commitments to funds for which management fees are based on drawn capital, NAV or cost basis .....	(3,242)	(2,593)	(3,828)
Oaktree's general partner investments in management fee-generating funds...	(1,948)	(1,928)	(1,745)
Funds that are no longer paying management fees and co-investments that pay no management fees <sup>(2)</sup> .....	(2,118)	(2,148)	(1,365)
Management fee-generating assets under management .....	<u>\$ 79,807</u>	<u>\$ 79,329</u>	<u>\$ 79,516</u>

(1) This difference is not applicable to closed-end funds that pay management fees based on NAV or leverage.

(2) This includes certain accounts that pay fees intended to offset Oaktree's costs related to the accounts.

The period-end weighted average annual management fee rates applicable to the respective management fee-generating AUM balances above are set forth below.

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
<b>Weighted Average Annual Management Fee Rates:</b>			
Closed-end funds:			
Senior Loans .....	0.50%	0.50%	0.50%
Other closed-end funds .....	1.49	1.50	1.51
Open-end funds .....	0.46	0.45	0.46
Evergreen funds .....	1.21	1.22	1.22
Overall .....	0.92	0.92	0.97

### ***Incentive-creating Assets Under Management***

Incentive-creating AUM is set forth below. As of June 30, 2017, March 31, 2017 and June 30, 2016, the portion of incentive-creating AUM generating incentives at the fund level was \$19.8 billion, \$20.7 billion and \$17.9 billion, respectively. Incentive-creating AUM does not include undrawn capital commitments.

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
<b>Incentive-creating Assets Under Management:</b>			
Closed-end funds .....	\$ 27,450	\$ 28,943	\$ 28,462
Evergreen funds .....	3,376	3,394	1,910
Total .....	<u>\$ 30,826</u>	<u>\$ 32,337</u>	<u>\$ 30,372</u>

### ***Three Months Ended June 30, 2017***

AUM decreased \$1.0 billion, or 1.0%, to \$99.3 billion as of June 30, 2017, from \$100.3 billion as of March 31, 2017. The decrease primarily reflected \$3.3 billion of distributions to closed-end fund investors and \$0.5 billion of net outflows from open-end funds, partially offset by \$1.8 billion in market-value gains and \$0.8 billion of favorable foreign-currency translation.

Management fee-generating AUM, a forward-looking metric, increased \$0.5 billion, or 0.6%, to \$79.8 billion as of June 30, 2017, from \$79.3 billion as of March 31, 2017. The increase primarily reflected \$0.8 billion in market-value gains, \$0.8 billion of favorable foreign-currency translation and \$0.4 billion from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, partially offset by \$0.9 billion attributable to closed-end funds in liquidation and \$0.5 billion of net outflows from open-end funds.

Incentive-creating AUM decreased \$1.5 billion, or 4.6%, to \$30.8 billion as of June 30, 2017, from \$32.3 billion as of March 31, 2017, reflecting an aggregate \$3.5 billion decline primarily attributable to distributions by closed-end funds, partially offset by an aggregate \$2.0 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains.

#### *Three Months Ended June 30, 2016*

AUM increased \$1.2 billion, or 1.2%, to \$98.1 billion as of June 30, 2016, from \$96.9 billion as of March 31, 2016. The increase primarily reflected \$1.9 billion of capital inflows for closed-end funds and \$1.6 billion in market-value gains, partially offset by \$1.6 billion of aggregate distributions to closed-end fund investors and change in fee-generating leverage.

Management fee-generating AUM, a forward-looking metric, decreased \$0.4 billion, or 0.5%, to \$79.5 billion as of June 30, 2016, from \$79.9 billion as of March 31, 2016. The decrease primarily reflected a \$1.7 billion aggregate decline attributable to closed-end funds in liquidation and fee-generating leverage, largely offset by \$1.3 billion in market-value gains.

Incentive-creating AUM decreased \$0.8 billion, or 2.6%, to \$30.4 billion as of June 30, 2016, from \$31.2 billion as of March 31, 2016, reflecting an aggregate \$1.8 billion decline primarily attributable to distributions by closed-end funds, partially offset by an aggregate \$1.0 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains.

#### *Six Months Ended June 30, 2017*

AUM decreased \$1.2 billion, or 1.2%, to \$99.3 billion as of June 30, 2017, from \$100.5 billion as of December 31, 2016. The decrease primarily reflected \$5.9 billion of distributions to closed-end fund investors and \$1.5 billion of net outflows from open-end funds, partially offset by \$3.7 billion in market-value gains, \$1.1 billion of capital inflows for closed-end funds and \$1.0 billion of favorable foreign-currency translation.

Management fee-generating AUM, a forward-looking metric, was \$79.8 billion as of both June 30, 2017 and December 31, 2016, primarily reflecting \$1.9 billion in market-value gains, \$0.9 billion of favorable foreign-currency translation and \$0.8 billion from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, offset by \$1.8 billion attributable to closed-end funds in liquidation and \$1.6 billion of net outflows from open-end funds.

Incentive-creating AUM decreased \$2.8 billion, or 8.3%, to \$30.8 billion as of June 30, 2017, from \$33.6 billion as of December 31, 2016, reflecting an aggregate \$6.3 billion decline primarily attributable to distributions by closed-end funds, partially offset by an aggregate \$3.5 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains.

#### *Six Months Ended June 30, 2016*

AUM increased \$0.7 billion, or 0.7%, to \$98.1 billion as of June 30, 2016, from \$97.4 billion as of December 31, 2015. The increase primarily reflected \$2.8 billion of capital inflows for closed-end funds and \$2.6 billion in market-value gains, partially offset by \$3.2 billion of distributions to closed-end fund investors and \$1.3 billion of net outflows from open-end funds.

Management fee-generating AUM, a forward-looking metric, increased \$0.6 billion, or 0.8%, to \$79.5 billion as of June 30, 2016, from \$78.9 billion as of December 31, 2015. The increase primarily reflected \$2.1 billion of market-value gains and an aggregate \$1.6 billion increase from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis and additional capital commitments. These increases were partially offset by a \$1.8 billion decline attributable to closed-end funds in liquidation and \$1.3 billion of net outflows from open-end funds.

Incentive-creating AUM decreased \$1.5 billion, or 4.7%, to \$30.4 billion as of June 30, 2016, from \$31.9 billion as of December 31, 2015, reflecting an aggregate \$3.6 billion decline primarily attributable to distributions by closed-end funds, partially offset by an aggregate \$2.1 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains.

**Accrued Incentives (Fund Level) and Incentives Created (Fund Level)**

Accrued incentives (fund level), gross and net of incentive income compensation expense, as well as changes in accrued incentives (fund level), are set forth below.

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2017	2016	2017	2016
(in thousands)				
<b>Accrued Incentives (Fund Level):</b>				
Beginning balance .....	\$ 2,068,422	\$ 1,442,359	\$ 2,014,097	\$ 1,585,217
Incentives created (fund level):				
Closed-end funds .....	159,207	166,850	349,228	120,005
Evergreen funds .....	9,395	4,292	20,892	4,867
Total incentives created (fund level) .....	168,602	171,142	370,120	124,872
Less: incentive income recognized by us .....	(457,446)	(87,647)	(604,639)	(184,235)
Ending balance .....	\$ 1,779,578	\$ 1,525,854	\$ 1,779,578	\$ 1,525,854
Accrued incentives (fund level), net of associated incentive income compensation expense .....	\$ 866,650	\$ 771,253	\$ 866,650	\$ 771,253

As of June 30, 2017 and 2016, the portion of net accrued incentives (fund level) represented by funds that were currently paying incentives was \$236.5 million (or 27%) and \$274.5 million (36%), respectively, with the remainder arising from funds that as of that date were not at the stage of their cash distribution waterfall where Oaktree was entitled to receive incentives, other than possibly tax-related distributions.

As of June 30, 2017, \$776.6 million, or 90%, of the net accrued incentives (fund level) was in funds in their liquidation period, and approximately 22% of the assets underlying total net accrued incentives (fund level) were Level I or Level II securities. Please see “—Critical Accounting Policies—Investments, at Fair Value—Non-publicly Traded Equity and Real Estate Investments” for a discussion of the fair-value hierarchy level established by GAAP.

*Three Months Ended June 30, 2017 and 2016*

Incentives created (fund level) was \$168.6 million for the three months ended June 30, 2017, primarily reflecting \$101.3 million of incentives created (fund level) from Control Investing funds, \$32.7 million from Distressed Debt funds and \$21.9 million from Real Estate funds.

Incentives created (fund level) was \$171.1 million for the three months ended June 30, 2016, primarily reflecting \$108.7 million of incentives created (fund level) from Control Investing funds and \$47.2 million from Distressed Debt funds.

*Six Months Ended June 30, 2017 and 2016*

Incentives created (fund level) was \$370.1 million for the six months ended June 30, 2017, primarily reflecting \$168.8 million of incentives created (fund level) from Distressed Debt funds, \$130.6 million from Control Investing funds and \$44.4 million from Real Estate funds.

Incentives created (fund level) was \$124.9 million for the six months ended June 30, 2016, primarily reflecting \$104.3 million of incentives created (fund level) from Control Investing funds and \$26.2 million from Real Estate funds.

**Uncalled Capital Commitments**

As of June 30, 2017, March 31, 2017, and June 30, 2016, uncalled capital commitments were \$21.5 billion, \$21.8 billion and \$22.8 billion, respectively. Invested capital during the three and 12 months ended June 30, 2017 aggregated \$1.8 billion and \$7.6 billion, respectively, as compared with \$2.4 billion and \$7.7 billion for the comparable prior-year periods.

## Non-GAAP Results

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial data that are presented without the consolidation of our funds. The data most important to management in assessing our performance are adjusted net income, adjusted net income-OCG, distributable earnings, distributable earnings-OCG, fee-related earnings and fee-related earnings-OCG. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are presented below under “—Reconciliation of GAAP to Non-GAAP Results.”

### Adjusted Net Income

The following schedules set forth the components of adjusted net income and adjusted net income-OCG, as well as per unit data:

#### Adjusted Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Revenues:				
Management fees .....	\$ 186,314	\$ 197,450	\$ 371,879	\$ 398,720
Incentive income .....	457,446	87,647	604,639	184,235
Investment income .....	60,602	47,725	119,031	62,802
Total adjusted revenues .....	<u>\$ 704,362</u>	<u>\$ 332,822</u>	<u>\$ 1,095,549</u>	<u>\$ 645,757</u>

#### Adjusted Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Expenses:				
Compensation and benefits .....	\$ (99,270)	\$ (99,173)	\$ (201,406)	\$ (203,443)
Equity-based compensation .....	(13,759)	(11,905)	(26,280)	(22,555)
Incentive income compensation .....	(269,974)	(35,407)	(343,118)	(85,156)
General and administrative .....	(32,439)	(31,810)	(64,908)	(69,995)
Depreciation and amortization .....	(2,004)	(3,048)	(4,827)	(6,208)
Total adjusted expenses .....	<u>\$ (417,446)</u>	<u>\$ (181,343)</u>	<u>\$ (640,539)</u>	<u>\$ (387,357)</u>

#### Adjusted Interest and Other Income (Expense), Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Interest expense, net of interest income <sup>(1)</sup> .....	\$ (6,544)	\$ (7,977)	\$ (13,515)	\$ (16,659)
Other income (expense), net .....	1,282	(1,527)	1,323	(1,392)

(1) Interest income was \$2.3 million and \$4.0 million for the three and six months ended June 30, 2017, respectively, and \$1.6 million and \$2.9 million for the three and six months ended June 30, 2016, respectively.

## Adjusted Net Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per unit data)			
Adjusted net income .....	\$ 281,654	\$ 141,975	\$ 442,818	\$ 240,349
Adjusted net income attributable to OCGH non-controlling interest .....	(165,706)	(84,640)	(261,200)	(143,427)
Non-Operating Group expenses .....	(255)	(201)	(487)	(465)
Adjusted net income-OCG before income taxes .....	115,693	57,134	181,131	96,457
Income taxes-OCG .....	(4,587)	(7,723)	(16,284)	(19,562)
Adjusted net income-OCG .....	\$ 111,106	\$ 49,411	\$ 164,847	\$ 76,895
Adjusted net income per Class A unit .....	\$ 1.73	\$ 0.79	\$ 2.59	\$ 1.24
Weighted average number of Class A units outstanding...	64,193	62,617	63,611	62,256

## Distributable Earnings

Distributable earnings are set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
<b>Distributable Earnings:</b>				
Adjusted net income .....	\$ 281,654	\$ 141,975	\$ 442,818	\$ 240,349
Investment income .....	(60,602)	(47,725)	(119,031)	(62,802)
Receipts of investment income from funds <sup>(1)</sup> .....	37,250	10,694	66,345	23,617
Receipts of investment income from companies .....	12,050	10,869	25,759	24,427
Equity-based compensation .....	13,759	11,905	26,280	22,555
Operating Group income taxes .....	(1,621)	(1,422)	(2,642)	(2,829)
Distributable earnings .....	\$ 282,490	\$ 126,296	\$ 439,529	\$ 245,317

- (1) This adjustment characterizes a portion of the distributions received from funds as receipts of investment income or loss. In general, the income or loss component of a fund distribution is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if the distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends. Additionally, any impairment charges on our CLO investments included in ANI are, for distributable earnings purposes, amortized over the remaining investment period of the respective CLO to align with the timing of expected cash flows.

### Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

Distributable earnings grew \$156.2 million, to \$282.5 million for the three months ended June 30, 2017, from \$126.3 million for the three months ended June 30, 2016, reflecting increases of \$135.2 million in incentive income, net of incentive income compensation expense ("net incentive income"), and \$27.7 million in investment income proceeds, partially offset by a \$10.8 million decline in fee-related earnings. For the three months ended June 30, 2017, investment income proceeds totaled \$49.3 million, including \$37.3 million from fund distributions and \$12.1 million from DoubleLine, as compared with total investment income proceeds in the prior-year period of \$21.6 million, of which \$10.7 million and \$10.9 million was attributable to fund distributions and DoubleLine, respectively. The portion of distributable earnings attributable to our Class A units was \$1.61 and \$0.71 per unit for the three months ended June 30, 2017 and 2016, respectively.

### Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

Distributable earnings grew \$194.2 million, or 79.2%, to \$439.5 million for the six months ended June 30, 2017, from \$245.3 million for the six months ended June 30, 2016, reflecting increases of \$162.4 million in net incentive income and \$44.1 million in investment income proceeds, partially offset by an \$18.4 million decline in fee-

related earnings. For the six months ended June 30, 2017, investment income proceeds totaled \$92.1 million, including \$66.3 million from fund distributions and \$25.8 million from DoubleLine, as compared with total investment income proceeds in the prior-year period of \$48.0 million, of which \$23.6 million and \$24.4 million was attributable to fund distributions and DoubleLine, respectively. The portion of distributable earnings attributable to our Class A units was \$2.48 and \$1.34 per unit for the six months ended June 30, 2017 and 2016, respectively.

### ***Fee-related Earnings***

#### *Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016*

Fee-related earnings decreased \$10.8 million, or 17.0%, to \$52.6 million for the three months ended June 30, 2017, from \$63.4 million for the three months ended June 30, 2016, reflecting the \$11.2 million decline in management fees. The portion of fee-related earnings attributable to our Class A units was \$0.31 and \$0.37 per unit for the three months ended June 30, 2017 and 2016, respectively.

The effective tax rate applicable to fee-related earnings for both the three months ended June 30, 2017 and 2016 was 8%, resulting from full-year effective rates of 8% for both full-year periods. The rate used for interim fiscal periods is based on the estimated full-year effective tax rate, which is subject to change as the year progresses. In general, the annual effective tax rate increases as annual fee-related earnings increase, and vice versa.

#### *Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016*

Fee-related earnings decreased \$18.4 million, or 15.4%, to \$100.7 million for the six months ended June 30, 2017, from \$119.1 million for the six months ended June 30, 2016. The decline reflected \$26.8 million of lower management fees, partially offset by \$5.1 million of lower general and administrative expense and \$2.0 million of lower compensation and benefits expense. The portion of fee-related earnings attributable to our Class A units was \$0.59 and \$0.70 per unit for the six months ended June 30, 2017 and 2016, respectively.

The effective tax rate applicable to fee-related earnings for the six months ended June 30, 2017 and 2016 was 8% for both periods.

## Reconciliation of GAAP to Non-GAAP Results

The following table reconciles net income attributable to Oaktree Capital Group, LLC to adjusted net income, fee-related earnings and distributable earnings.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to Oaktree Capital Group, LLC .....	\$ 117,324	\$ 49,047	\$ 172,239	\$ 77,125
Incentive income <sup>(1)</sup> .....	3,418	(54)	41,954	39,888
Incentive income compensation <sup>(1)</sup> .....	(3,418)	54	(41,954)	(39,888)
Investment income <sup>(2)</sup> .....	(18,275)	(3,149)	(22,647)	(13,578)
Equity-based compensation <sup>(3)</sup> .....	989	2,821	3,421	6,066
Foreign-currency hedging <sup>(4)</sup> .....	1,869	3,665	(127)	9,531
Acquisition-related items <sup>(5)</sup> .....	861	(1,889)	2,463	(1,498)
Income taxes <sup>(6)</sup> .....	5,541	8,571	17,843	21,251
Non-Operating Group expenses <sup>(7)</sup> .....	255	201	487	465
Non-controlling interests <sup>(7)</sup> .....	173,090	82,708	269,139	140,987
Adjusted net income .....	<u>281,654</u>	<u>141,975</u>	<u>442,818</u>	<u>240,349</u>
Incentive income .....	(457,446)	(87,647)	(604,639)	(184,235)
Incentive income compensation .....	269,974	35,407	343,118	85,156
Investment income .....	(60,602)	(47,725)	(119,031)	(62,802)
Equity-based compensation <sup>(8)</sup> .....	13,759	11,905	26,280	22,555
Interest expense, net of interest income .....	6,544	7,977	13,515	16,659
Other (income) expense, net .....	(1,282)	1,527	(1,323)	1,392
Fee-related earnings .....	<u>52,601</u>	<u>63,419</u>	<u>100,738</u>	<u>119,074</u>
Incentive income .....	457,446	87,647	604,639	184,235
Incentive income compensation .....	(269,974)	(35,407)	(343,118)	(85,156)
Receipts of investment income from funds <sup>(9)</sup> .....	37,250	10,694	66,345	23,617
Receipts of investment income from companies .....	12,050	10,869	25,759	24,427
Interest expense, net of interest income .....	(6,544)	(7,977)	(13,515)	(16,659)
Other (income) expense, net .....	1,282	(1,527)	1,323	(1,392)
Operating Group income taxes .....	(1,621)	(1,422)	(2,642)	(2,829)
Distributable earnings .....	<u>\$ 282,490</u>	<u>\$ 126,296</u>	<u>\$ 439,529</u>	<u>\$ 245,317</u>

- (1) This adjustment adds back the effect of timing differences associated with the recognition of incentive income and incentive income compensation expense between adjusted net income and net income attributable to OCG.
- (2) This adjustment adds back the effect of differences in the recognition of investment income related to corporate investments in CLOs which under GAAP are marked-to-market but for ANI are accounted for at amortized cost, subject to impairment.
- (3) This adjustment adds back the effect of equity-based compensation expense related to unit grants made before our initial public offering, which is excluded from adjusted net income and fee-related earnings because it is a non-cash charge that does not affect our financial position.
- (4) This adjustment adds back the effect of timing differences associated with the recognition of unrealized gains and losses related to foreign-currency hedging between adjusted net income and net income attributable to OCG.
- (5) This adjustment adds back the effect of acquisition-related items associated with the amortization of intangibles and changes in the contingent consideration liability, which are excluded from adjusted net income.
- (6) Because adjusted net income and fee-related earnings are pre-tax measures, this adjustment adds back the effect of income tax expense.
- (7) Because adjusted net income and fee-related earnings are calculated at the Operating Group level, this adjustment adds back the effect of items applicable to OCG, its Intermediate Holding Companies or non-controlling interests.
- (8) This adjustment adds back the effect of equity-based compensation expense related to unit grants made after our initial public offering, which is excluded from fee-related earnings because it is non-cash in nature and does not impact our ability to fund our operations.
- (9) This adjustment reflects the portion of distributions received from funds characterized as receipts of investment income or loss. In general, the income or loss component of a distribution from a fund is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if

the distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends.

The following table reconciles net income attributable to Oaktree Capital Group, LLC to adjusted net income-OCG, fee-related earnings-OCG and distributable earnings-OCG.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income attributable to Oaktree Capital Group, LLC .....	\$ 117,324	\$ 49,047	\$ 172,239	\$ 77,125
Incentive income attributable to OCG <sup>(1)</sup> .....	1,407	(22)	17,109	16,051
Incentive income compensation attributable to OCG <sup>(1)</sup> .....	(1,407)	22	(17,109)	(16,051)
Investment income attributable to OCG <sup>(2)</sup> .....	(7,523)	(1,271)	(9,304)	(5,468)
Equity-based compensation attributable to OCG <sup>(3)</sup> .....	407	1,138	1,398	2,445
Foreign-currency hedging attributable to OCG <sup>(4)</sup> .....	770	1,481	(43)	3,840
Acquisition-related items attributable to OCG <sup>(5)</sup> .....	354	(763)	1,006	(605)
Non-controlling interests attributable to OCG <sup>(5)</sup> .....	(226)	(221)	(449)	(442)
Adjusted net income-OCG <sup>(6)</sup> .....	111,106	49,411	164,847	76,895
Incentive income attributable to OCG .....	(188,317)	(35,395)	(248,294)	(74,263)
Incentive income compensation attributable to OCG .....	111,140	14,298	140,944	34,318
Investment income attributable to OCG .....	(24,948)	(19,274)	(48,757)	(25,341)
Equity-based compensation attributable to OCG <sup>(7)</sup> .....	5,665	4,808	10,769	9,093
Interest expense, net of interest income attributable to OCG .....	2,577	3,181	5,345	6,644
Other (income) expense attributable to OCG .....	(528)	616	(544)	562
Non-fee-related earnings income taxes attributable to OCG <sup>(8)</sup> .....	2,918	5,683	13,095	15,781
Fee-related earnings-OCG <sup>(6)</sup> .....	19,613	23,328	37,405	43,689
Incentive income attributable to OCG .....	188,317	35,395	248,294	74,263
Incentive income compensation attributable to OCG .....	(111,140)	(14,298)	(140,944)	(34,318)
Receipts of investment income from funds attributable to OCG .....	15,334	4,319	27,190	9,519
Receipts of investment income from companies attributable to OCG .....	4,961	4,389	10,547	9,845
Interest expense, net of interest income attributable to OCG .....	(2,577)	(3,181)	(5,345)	(6,644)
Other (income) expense attributable to OCG .....	528	(616)	544	(562)
Non-fee-related earnings income taxes attributable to OCG <sup>(8)</sup> .....	(2,918)	(5,683)	(13,095)	(15,781)
Distributable earnings-OCG income taxes .....	(7,223)	(1,303)	(11,335)	(4,683)
Tax receivable agreement .....	(5,415)	(5,106)	(10,778)	(10,212)
Income taxes of Intermediate Holding Companies .....	3,920	7,149	15,201	18,422
Distributable earnings-OCG <sup>(6)</sup> .....	\$ 103,400	\$ 44,393	\$ 157,684	\$ 83,538

- (1) This adjustment adds back the effect of timing differences associated with the recognition of incentive income and incentive income compensation expense between adjusted net income-OCG and net income attributable to OCG.
- (2) This adjustment adds back the effect of differences in the recognition of investment income related to corporate investments in CLOs which under GAAP are marked-to-market but for ANI are accounted for at amortized cost, subject to impairment.
- (3) This adjustment adds back the effect of equity-based compensation expense attributable to OCG related to unit grants made before our initial public offering, which is excluded from adjusted net income-OCG and fee-related earnings-OCG because it is a non-cash charge that does not affect our financial position.
- (4) This adjustment adds back the effect of timing differences associated with the recognition of unrealized gains and losses related to foreign-currency hedging between adjusted net income-OCG and net income attributable to OCG.
- (5) This adjustment adds back the effect of (a) acquisition-related items associated with the amortization of intangibles and changes in the contingent consideration liability and (b) non-controlling interests, which are both excluded from ANI.

- (6) Adjusted net income-OCG, fee-related earnings-OCG and distributable earnings-OCG are calculated to evaluate the portion of adjusted net income, fee-related earnings and distributable earnings attributable to Class A unitholders. These measures are net of income taxes and other income or expenses applicable to OCG or its Intermediate Holding Companies. Reconciliations of fee-related earnings to fee-related earnings-OCG and distributable earnings to distributable earnings-OCG are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per unit data)			
Fee-related earnings .....	\$ 52,601	\$ 63,419	\$ 100,738	\$ 119,074
Fee-related earnings attributable to OCGH non-controlling interest .....	(30,947)	(37,810)	(59,467)	(71,068)
Non-Operating Group expenses .....	(372)	(241)	(677)	(536)
Fee-related earnings-OCG income taxes .....	(1,669)	(2,040)	(3,189)	(3,781)
Fee-related earnings-OCG .....	<u>\$ 19,613</u>	<u>\$ 23,328</u>	<u>\$ 37,405</u>	<u>\$ 43,689</u>
Fee-related earnings per Class A unit .....	<u>\$ 0.31</u>	<u>\$ 0.37</u>	<u>\$ 0.59</u>	<u>\$ 0.70</u>
Weighted average number of Class A units outstanding .....	<u>64,193</u>	<u>62,617</u>	<u>63,611</u>	<u>62,256</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per unit data)			
Distributable earnings .....	\$ 282,490	\$ 126,296	\$ 439,529	\$ 245,317
Distributable earnings attributable to OCGH non-controlling interest .....	(166,197)	(75,293)	(259,245)	(146,419)
Non-Operating Group expenses .....	(255)	(201)	(487)	(465)
Distributable earnings-OCG income taxes .....	(7,223)	(1,303)	(11,335)	(4,683)
Tax receivable agreement .....	(5,415)	(5,106)	(10,778)	(10,212)
Distributable earnings-OCG .....	<u>\$ 103,400</u>	<u>\$ 44,393</u>	<u>\$ 157,684</u>	<u>\$ 83,538</u>
Distributable earnings per Class A unit .....	<u>\$ 1.61</u>	<u>\$ 0.71</u>	<u>\$ 2.48</u>	<u>\$ 1.34</u>
Weighted average number of Class A units outstanding .....	<u>64,193</u>	<u>62,617</u>	<u>63,611</u>	<u>62,256</u>

- (7) This adjustment adds back the effect of equity-based compensation expense attributable to OCG related to unit grants made after our initial public offering, which is excluded from fee-related earnings-OCG, because it is non-cash in nature and does not impact our ability to fund our operations.
- (8) This adjustment adds back income taxes associated with incentive income, incentive income compensation expense or investment income or loss, which are not included in the calculation of fee-related earnings-OCG.

The following tables reconcile GAAP consolidated financial data to non-GAAP data:

	As of or for the Three Months Ended June 30, 2017		
	Consolidated	Adjustments (in thousands)	ANI
Management fees <sup>(1)</sup> .....	\$ 180,028	\$ 6,286	\$ 186,314
Incentive income <sup>(1)</sup> .....	454,027	3,419	457,446
Investment income <sup>(1)</sup> .....	49,106	11,496	60,602
Total expenses <sup>(2)</sup> .....	(423,426)	5,980	(417,446)
Interest expense, net <sup>(3)</sup> .....	(44,251)	37,707	(6,544)
Other income (expense), net <sup>(4)</sup> .....	4,898	(3,616)	1,282
Other income of consolidated funds <sup>(5)</sup> .....	80,602	(80,602)	—
Income taxes .....	(5,541)	5,541	—
Net income attributable to non-controlling interests in consolidated funds ....	(3,861)	3,861	—
Net income attributable to non-controlling interests in consolidated subsidiaries .....	(174,258)	174,258	—
Net income attributable to Oaktree Capital Group, LLC / Adjusted net income .....	<u>\$ 117,324</u>	<u>\$ 164,330</u>	<u>\$ 281,654</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) for management fees, reclassifies \$1,684 of net gains related to foreign-currency hedging activities from general and administrative expense, (c) for incentive income, includes \$3,418 related to timing differences in the recognition of incentive income between net income attributable to OCG and adjusted net income, and (d) for investment income, includes \$18,275 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.
- (2) The expense adjustment consists of (a) equity-based compensation expense of \$989 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$3,375, (c) expenses incurred by the Intermediate Holding Companies of \$372, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG and adjusted net income of \$3,418, (e) acquisition-related items of \$861, (f) adjustments of \$4,729 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (g) \$928 of net gains related to foreign-currency hedging activities.
- (3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (4) The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$4,729 that are classified as other income under GAAP and as expenses for ANI, and (b) the reclassification of \$1,113 in net gains related to foreign-currency hedging activities from general and administrative expense.
- (5) The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

## As of or for the Three Months Ended June 30, 2016

	Consolidated	Adjustments (in thousands)	ANI
Management fees <sup>(1)</sup> .....	\$ 195,015	\$ 2,435	\$ 197,450
Incentive income <sup>(1)</sup> .....	87,701	(54)	87,647
Investment income <sup>(1)</sup> .....	41,000	6,725	47,725
Total expenses <sup>(2)</sup> .....	(191,648)	10,305	(181,343)
Interest expense, net <sup>(3)</sup> .....	(26,730)	18,753	(7,977)
Other income (expense), net <sup>(4)</sup> .....	5,548	(7,075)	(1,527)
Other income of consolidated funds <sup>(5)</sup> .....	38,519	(38,519)	—
Income taxes .....	(8,571)	8,571	—
Net income attributable to non-controlling interests in consolidated funds ....	(7,319)	7,319	—
Net income attributable to non-controlling interests in consolidated subsidiaries .....	(84,468)	84,468	—
Net income attributable to Oaktree Capital Group, LLC / Adjusted net income .....	<u>\$ 49,047</u>	<u>\$ 92,928</u>	<u>\$ 141,975</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) for management fees, reclassifies \$27 of net gains related to foreign-currency hedging activities from general and administrative expense, (c) for incentive income, includes \$54 related to timing differences in the recognition of incentive income between net income attributable to OCG and adjusted net income, and (d) for investment income, includes \$3,149 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.
- (2) The expense adjustment consists of (a) equity-based compensation expense of \$2,821 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$1,635, (c) expenses incurred by the Intermediate Holding Companies of \$241, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG and adjusted net income of \$54, (e) acquisition-related items of \$1,889, (f) adjustments of \$5,545 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (g) \$5,168 of net losses related to foreign-currency hedging activities.
- (3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (4) The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$5,545 that are classified as other income under GAAP and as expenses for ANI, and (b) the reclassification of \$1,530 in net losses related to foreign-currency hedging activities from general and administrative expense.
- (5) The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

**As of or for the Six Months Ended June 30, 2017**

	<u>Consolidated</u>	<u>Adjustments</u>	<u>ANI</u>
		(in thousands)	
Management fees <sup>(1)</sup> .....	\$ 360,956	\$ 10,923	\$ 371,879
Incentive income <sup>(1)</sup> .....	562,684	41,955	604,639
Investment income <sup>(1)</sup> .....	99,557	19,474	119,031
Total expenses <sup>(2)</sup> .....	(615,988)	(24,551)	(640,539)
Interest expense, net <sup>(3)</sup> .....	(93,021)	79,506	(13,515)
Other income (expense), net <sup>(4)</sup> .....	9,561	(8,238)	1,323
Other income of consolidated funds <sup>(5)</sup> .....	151,368	(151,368)	—
Income taxes .....	(17,843)	17,843	—
Net income attributable to non-controlling interests in consolidated funds ....	(13,553)	13,553	—
Net income attributable to non-controlling interests in consolidated subsidiaries .....	(271,482)	271,482	—
Net income attributable to Oaktree Capital Group, LLC / Adjusted net income .....	<u>\$ 172,239</u>	<u>\$ 270,579</u>	<u>\$ 442,818</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) for management fees, reclassifies \$2,099 of net gains related to foreign-currency hedging activities from general and administrative expense, (c) for incentive income, includes \$41,954 related to timing differences in the recognition of incentive income between net income attributable to OCG and adjusted net income, and (d) for investment income, includes \$22,647 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.
- (2) The expense adjustment consists of (a) equity-based compensation expense of \$3,421 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$4,832, (c) expenses incurred by the Intermediate Holding Companies of \$677, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG and adjusted net income of \$41,954, (e) acquisition-related items of \$2,463, (f) adjustments of \$9,390 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (g) \$3,380 of net gains related to foreign-currency hedging activities.
- (3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (4) The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$9,390 that are classified as other income under GAAP and as expenses for ANI, and (b) the reclassification of \$1,154 in net gains related to foreign-currency hedging activities from general and administrative expense.
- (5) The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

**As of or for the Six Months Ended June 30, 2016**

	<u>Consolidated</u>	<u>Adjustments</u>	<u>ANI</u>
		(in thousands)	
Management fees <sup>(1)</sup> .....	\$ 393,568	\$ 5,152	\$ 398,720
Incentive income <sup>(1)</sup> .....	143,638	40,597	184,235
Investment income <sup>(1)</sup> .....	70,447	(7,645)	62,802
Total expenses <sup>(2)</sup> .....	(376,832)	(10,525)	(387,357)
Interest expense, net <sup>(3)</sup> .....	(54,435)	37,776	(16,659)
Other income (expense), net <sup>(4)</sup> .....	11,349	(12,741)	(1,392)
Other income of consolidated funds <sup>(5)</sup> .....	57,518	(57,518)	—
Income taxes .....	(21,251)	21,251	—
Net income attributable to non-controlling interests in consolidated funds ....	(2,375)	2,375	—
Net income attributable to non-controlling interests in consolidated subsidiaries .....	(144,502)	144,502	—
Net income attributable to Oaktree Capital Group, LLC / Adjusted net income .....	<u>\$ 77,125</u>	<u>\$ 163,224</u>	<u>\$ 240,349</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) for management fees, reclassifies \$689 of net gains related to foreign-currency hedging activities from general and administrative expense, (c) for incentive income, includes \$39,888 related to timing differences in the recognition of incentive income between net income attributable to OCG and adjusted net income, and (d) for investment income, includes \$13,578 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.
- (2) The expense adjustment consists of (a) equity-based compensation expense of \$6,066 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$2,676, (c) expenses incurred by the Intermediate Holding Companies of \$536, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG and adjusted net income of \$39,888, (e) acquisition-related items of \$1,498, (f) adjustments of \$11,346 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (g) \$10,237 of net losses related to foreign-currency hedging activities.
- (3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (4) The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$11,346 that are classified as other income under GAAP and as expenses for ANI, and (b) the reclassification of \$1,395 in net losses related to foreign-currency hedging activities from general and administrative expense.
- (5) The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

### Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

#### Adjusted Revenues

##### Management Fees

A summary of management fees is set forth below:

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
<b>Management Fees:</b>		
Closed-end funds .....	\$ 131,895	\$ 145,953
Open-end funds .....	40,481	38,776
Evergreen funds .....	13,938	12,721
Total .....	<u>\$ 186,314</u>	<u>\$ 197,450</u>

Management fees decreased \$11.2 million, or 5.7%, to \$186.3 million for the three months ended June 30, 2017, from \$197.5 million for the three months ended June 30, 2016, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds decreased \$14.1 million, or 9.7%, to \$131.9 million for the three months ended June 30, 2017, from \$146.0 million for the three months ended June 30, 2016. The decline reflected an aggregate decrease of \$21.2 million primarily attributable to closed-end funds in liquidation, partially offset by an aggregate increase of \$7.1 million principally from closed-end funds that pay management fees based on drawn capital, NAV or cost basis.
- *Open-end funds.* Management fees attributable to open-end funds increased \$1.7 million, or 4.4%, to \$40.5 million for the three months ended June 30, 2017, from \$38.8 million for the three months ended June 30, 2016. The increase was primarily attributable to market-value gains, partially offset by net outflows.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$1.2 million, or 9.4%, to \$13.9 million for the three months ended June 30, 2017, from \$12.7 million for the three months ended June 30, 2016, primarily reflecting market-value gains, partially offset by a lower average management fee rate for Value Opportunities Fund ("VOF").

##### Incentive Income

A summary of incentive income is set forth below:

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
<b>Incentive Income:</b>		
Closed-end funds .....	\$ 453,127	\$ 87,550
Evergreen funds .....	4,319	97
Total .....	<u>\$ 457,446</u>	<u>\$ 87,647</u>

Incentive income increased \$369.8 million, to \$457.4 million for the three months ended June 30, 2017, from \$87.6 million for the three months ended June 30, 2016. The increase was primarily attributable to the sale of AdvancePierre Foods in the current-year period, resulting in \$427.8 million of incentive income from POF IV, which started paying incentives in the quarter and benefited from the catch-up layer of the European-style waterfall whereby 80% of a distribution goes to Oaktree and 20% to the investors.

## Investment Income

A summary of investment income is set forth below:

	Three Months Ended June 30,	
	2017	2016
	(in thousands)	
Income (loss) from investments in funds:		
Oaktree funds:		
Corporate Debt .....	\$ 8,921	\$ 12,637
Convertible Securities .....	418	48
Distressed Debt .....	11,809	10,276
Control Investing .....	7,648	1,280
Real Estate .....	4,508	1,457
Listed Equities .....	6,739	2,270
Non-Oaktree funds .....	1,730	3,075
Income from investments in companies .....	18,829	16,682
Total investment income .....	<u>\$ 60,602</u>	<u>\$ 47,725</u>

Investment income increased \$12.9 million, or 27.0%, to \$60.6 million for the three months ended June 30, 2017, from \$47.7 million for the three months ended June 30, 2016. The increase primarily reflected higher overall returns on our fund investments. DoubleLine accounted for investment income of \$18.9 million and \$16.6 million in the three months ended June 30, 2017 and 2016, respectively, of which performance fees accounted for \$2.5 million and \$1.5 million, respectively.

## Adjusted Expenses

### Compensation and Benefits

Compensation and benefits expense increased \$0.1 million, or 0.1%, to \$99.3 million for the three months ended June 30, 2017, from \$99.2 million for the three months ended June 30, 2016.

### Equity-based Compensation

Equity-based compensation expense increased \$1.9 million, or 16.0%, to \$13.8 million for the three months ended June 30, 2017, from \$11.9 million for the three months ended June 30, 2016. The increase reflected non-cash amortization expense associated with vesting of Class A and OCGH unit grants made to employees and directors subsequent to our 2012 initial public offering.

### Incentive Income Compensation

Incentive income compensation expense increased \$234.6 million, to \$270.0 million for the three months ended June 30, 2017, from \$35.4 million for the three months ended June 30, 2016. The increase reflected growth in incentive income and a higher overall compensation percentage in the current-year period, as a result of incremental incentive interests awarded over the life of POF IV due to changes in senior investment personnel.

### General and Administrative

General and administrative expense increased \$0.6 million, or 1.9%, to \$32.4 million for the three months ended June 30, 2017, from \$31.8 million for the three months ended June 30, 2016.

### Depreciation and Amortization

Depreciation and amortization expense decreased \$1.0 million, or 33.3%, to \$2.0 million for the three months ended June 30, 2017, from \$3.0 million for the three months ended June 30, 2016, primarily reflecting the final amortization of certain leasehold improvements.

### *Interest Expense, Net of Interest Income*

Interest expense, net decreased \$1.5 million, or 18.8%, to \$6.5 million for the three months ended June 30, 2017, from \$8.0 million for the three months ended June 30, 2016, reflecting the maturity of \$100.0 million in senior notes in 2016 and higher interest income.

### *Other Income (Expense), Net*

Other income (expense), net amounted to income of \$1.3 million and expense of \$1.5 million for the three months ended June 30, 2017 and 2016, respectively, primarily reflecting foreign-currency transaction gains and losses.

### *Adjusted Net Income*

ANI increased \$139.7 million, or 98.4%, to \$281.7 million for the three months ended June 30, 2017, from \$142.0 million for the three months ended June 30, 2016, reflecting increases of \$135.2 million in net incentive income and \$12.9 million in investment income, partially offset by a \$10.8 million decline in fee-related earnings.

### *Income Taxes-OCG*

Income taxes decreased \$3.1 million, or 40.3%, to \$4.6 million for the three months ended June 30, 2017, from \$7.7 million for the three months ended June 30, 2016. The decrease reflected a lower effective tax rate for the three months ended June 30, 2017, partially offset by higher adjusted net income-OCG before income taxes. The effective tax rates applied to ANI for the three months ended June 30, 2017 and 2016 were 4% and 14%, respectively, resulting from full-year effective rates of 11% and 20%, respectively. The effective tax rate used for interim fiscal quarters is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and often vary significantly within or between years. In general, the annual effective tax rate increases as the proportion of ANI arising from fee-related earnings, DoubleLine-related investment income and certain incentive and investment income rises, and vice versa.

## **Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016**

### **Adjusted Revenues**

#### *Management Fees*

A summary of management fees is set forth below:

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
<b>Management Fees:</b>		
Closed-end funds .....	\$ 263,603	\$ 294,204
Open-end funds .....	80,625	77,189
Evergreen funds .....	27,651	27,327
Total .....	<u>\$ 371,879</u>	<u>\$ 398,720</u>

Management fees decreased \$26.8 million, or 6.7%, to \$371.9 million for the six months ended June 30, 2017, from \$398.7 million for the six months ended June 30, 2016, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds decreased \$30.6 million, or 10.4%, to \$263.6 million for the six months ended June 30, 2017, from \$294.2 million for the six months ended June 30, 2016. The decline reflected an aggregate decrease of \$43.6 million primarily attributable to closed-end funds in liquidation, partially offset by an aggregate increase of \$13.0 million principally from additional commitments to ROF VII and closed-end funds that pay management fees based on drawn capital, NAV or cost basis.

- *Open-end funds.* Management fees attributable to open-end funds increased \$3.4 million, or 4.4%, to \$80.6 million for the six months ended June 30, 2017, from \$77.2 million for the six months ended June 30, 2016. The increase was primarily attributable to market-value gains, partially offset by net outflows.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$0.4 million, or 1.5%, to \$27.7 million for the six months ended June 30, 2017, from \$27.3 million for the six months ended June 30, 2016. The increase reflected market-value gains, partially offset by a lower average management fee rate for VOF.

### *Incentive Income*

A summary of incentive income is set forth below:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
<b>Incentive Income:</b>		
Closed-end funds .....	\$ 600,320	\$ 184,138
Evergreen funds .....	4,319	97
Total .....	<u>\$ 604,639</u>	<u>\$ 184,235</u>

Incentive income increased \$420.4 million, to \$604.6 million for the six months ended June 30, 2017, from \$184.2 million for the six months ended June 30, 2016. The increase was primarily attributable to the sale of AdvancePierre Foods in the second quarter of 2017, resulting in \$427.8 million of incentive income from POF IV. Tax-related incentive income represented \$81.2 million and \$72.7 million in the current and prior-year periods, respectively.

### *Investment Income*

A summary of investment income is set forth below:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Income (loss) from investments in funds:		
Oaktree funds:		
Corporate Debt .....	\$ 17,833	\$ (906)
Convertible Securities .....	863	(896)
Distressed Debt .....	31,650	19,167
Control Investing .....	11,070	(167)
Real Estate .....	8,456	4,562
Listed Equities .....	10,426	5,758
Non-Oaktree funds .....	4,010	3,495
Income from investments in companies .....	34,723	31,789
Total investment income .....	<u>\$ 119,031</u>	<u>\$ 62,802</u>

Investment income increased \$56.2 million, or 89.5%, to \$119.0 million for the six months ended June 30, 2017, from \$62.8 million for the six months ended June 30, 2016. The increase primarily reflected higher overall returns on our fund investments. DoubleLine accounted for investment income of \$34.7 million and \$31.6 million in the six months ended June 30, 2017 and 2016, respectively, of which performance fees accounted for \$2.7 million and \$2.0 million, respectively.

### **Adjusted Expenses**

#### *Compensation and Benefits*

Compensation and benefits expense decreased \$2.0 million, or 1.0%, to \$201.4 million for the six months ended June 30, 2017, from \$203.4 million for the six months ended June 30, 2016.

### *Equity-based Compensation*

Equity-based compensation expense increased \$3.7 million, or 16.4%, to \$26.3 million for the six months ended June 30, 2017, from \$22.6 million for the six months ended June 30, 2016. The increase reflected non-cash amortization expense associated with vesting of Class A and OCGH unit grants made to employees and directors subsequent to our 2012 initial public offering.

### *Incentive Income Compensation*

Incentive income compensation expense increased \$257.9 million, to \$343.1 million for the six months ended June 30, 2017, from \$85.2 million for the six months ended June 30, 2016. The increase reflected growth in incentive income and a higher overall compensation percentage in the current-year period, as a result of incremental incentive interests awarded over the life of POF IV due to changes in senior investment personnel.

### *General and Administrative*

General and administrative expense decreased \$5.1 million, or 7.3%, to \$64.9 million for the six months ended June 30, 2017, from \$70.0 million for the six months ended June 30, 2016. The decrease primarily reflected lower placement costs associated with closed-end funds.

### *Depreciation and Amortization*

Depreciation and amortization expense decreased \$1.4 million, or 22.6%, to \$4.8 million for the six months ended June 30, 2017, from \$6.2 million for the six months ended June 30, 2016, primarily reflecting the final amortization of certain leasehold improvements.

### *Interest Expense, Net of Interest Income*

Interest expense, net decreased \$3.2 million, or 19.2%, to \$13.5 million for the six months ended June 30, 2017, from \$16.7 million for the six months ended June 30, 2016, reflecting the maturity of \$100.0 million in senior notes in 2016 and higher interest income.

### *Other Income (Expense), Net*

Other income (expense), net amounted to income of \$1.3 million and expense of \$1.4 million for the six months ended June 30, 2017 and 2016, respectively, primarily reflecting foreign-currency transaction gains and losses.

### *Adjusted Net Income*

ANI increased \$202.5 million, or 84.3%, to \$442.8 million for the six months ended June 30, 2017, from \$240.3 million for the six months ended June 30, 2016, reflecting increases of \$162.4 million in net incentive income and \$56.2 million in investment income, partially offset by an \$18.4 million decline in fee-related earnings.

### *Income Taxes-OCG*

Income taxes decreased \$3.3 million, or 16.8%, to \$16.3 million for the six months ended June 30, 2017, from \$19.6 million for the six months ended June 30, 2016. The decrease reflected a lower effective tax rate for the six months ended June 30, 2017, partially offset by higher adjusted net income-OCG before income taxes. The effective tax rates applied to ANI for the six months ended June 30, 2017 and 2016 were 9% and 20%, respectively. The effective tax rate used for interim fiscal quarters is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and often vary significantly within or between years. In general, the annual effective tax rate increases as the proportion of ANI arising from fee-related earnings, DoubleLine-related investment income and certain incentive and investment income rises, and vice versa.

## GAAP Statement of Financial Condition (Unaudited)

We manage our financial condition without the consolidation of our funds. Since our founding, we have managed our financial condition in a way that builds our capital base and maintains sufficient liquidity for known and anticipated uses of cash. We have issued debt largely to help fund our corporate investments in funds and companies, favoring longer terms to better match the multi-year nature of our typical investments. Our assets do not include accrued incentives (fund level), an off-balance sheet metric, nor do they reflect the fair-market value of our 20% interest in DoubleLine, which is carried at cost, as adjusted under the equity method of accounting.

The following table presents our GAAP condensed consolidating statement of financial condition:

	As of June 30, 2017			
	Oaktree and Operating Subsidiaries	Consolidated Funds	Eliminations	Consolidated
	(in thousands)			
<b>Assets:</b>				
Cash and cash-equivalents .....	\$ 600,104	\$ —	\$ —	\$ 600,104
U.S. Treasury and time deposit securities .....	555,008	—	—	555,008
Corporate investments .....	1,562,997	—	(546,919)	1,016,078
Deferred tax assets .....	405,030	—	—	405,030
Receivables and other assets .....	376,198	—	(3,406)	372,792
Assets of consolidated funds .....	—	5,565,389	—	5,565,389
Total assets .....	<u>\$ 3,499,337</u>	<u>\$ 5,565,389</u>	<u>\$ (550,325)</u>	<u>\$ 8,514,401</u>
<b>Liabilities and Capital:</b>				
Liabilities:				
Accounts payable and accrued expenses .....	\$ 340,339	\$ —	\$ 2,977	\$ 343,316
Due to affiliates .....	341,741	—	—	341,741
Debt obligations .....	746,336	—	—	746,336
Liabilities of consolidated funds .....	—	4,502,967	(17,038)	4,485,929
Total liabilities .....	<u>1,428,416</u>	<u>4,502,967</u>	<u>(14,061)</u>	<u>5,917,322</u>
Non-controlling redeemable interests in consolidated funds .	—	—	497,406	497,406
Capital:				
Unitholders' capital attributable to OCG .....	904,133	1,062,422	(1,062,422)	904,133
Non-controlling interest in consolidated subsidiaries .....	1,166,788	—	—	1,166,788
Non-controlling interest in consolidated funds .....	—	—	28,752	28,752
Total capital .....	<u>2,070,921</u>	<u>1,062,422</u>	<u>(1,033,670)</u>	<u>2,099,673</u>
Total liabilities and capital .....	<u>\$ 3,499,337</u>	<u>\$ 5,565,389</u>	<u>\$ (550,325)</u>	<u>\$ 8,514,401</u>

## Corporate Investments

A summary of corporate investments is set forth below:

	As of		
	June 30, 2017	March 31, 2017	June 30, 2016
Investments in funds:			
Oaktree funds:			
Corporate Debt .....	\$ 518,813	\$ 493,478	\$ 417,883
Convertible Securities .....	27,599	27,180	1,627
Distressed Debt .....	396,077	404,317	380,324
Control Investing .....	236,099	258,064	251,612
Real Estate .....	135,751	140,569	113,406
Listed Equities .....	132,113	122,572	116,954
Non-Oaktree funds .....	72,326	70,983	70,551
Investments in companies .....	25,188	29,962	19,621
Total corporate investments – Non-GAAP .....	1,543,966	1,547,125	1,371,978
Adjustments <sup>(1)</sup> .....	19,031	3,802	(12,711)
Total corporate investments – Oaktree and operating subsidiaries .....	1,562,997	1,550,927	1,359,267
Eliminations .....	(546,919)	(493,433)	(323,029)
Total corporate investments – Consolidated .....	<u>\$ 1,016,078</u>	<u>\$ 1,057,494</u>	<u>\$ 1,036,238</u>

(1) This adjusts CLO investments carried at amortized cost to fair value for GAAP reporting.

## Liquidity and Capital Resources

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short-term assets and liabilities. Our primary cash flow activities on an unconsolidated basis involve (a) generating cash flow from operations, (b) generating income from investment activities, including strategic investments in certain third parties, (c) funding capital commitments that we have made to our funds, (d) funding our growth initiatives, (e) distributing cash flow to our owners and (f) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements. As of June 30, 2017, we had \$1.2 billion of cash and U.S. Treasury and time deposit securities, and \$746 million in outstanding debt, which included no borrowings outstanding against our \$500 million revolving credit facility. Our investments in funds and companies on a non-GAAP basis had a carrying value of \$1.5 billion as of June 30, 2017.

Ongoing sources of cash include (a) management fees, which are collected monthly or quarterly, (b) incentive income, which is volatile and largely unpredictable as to amount and timing, and (c) distributions stemming from our corporate investments in funds and companies. As of June 30, 2017, corporate investments of \$1.5 billion included unrealized investment income proceeds of \$384 million, of which \$172 million was in closed-end funds in their liquidation period. We primarily use cash flow from operations and distributions from our corporate investments to pay compensation and related expenses, general and administrative expenses, income taxes, debt service, capital expenditures and distributions. This same cash flow, together with proceeds from equity and debt issuances, is also used to fund corporate investments, fixed assets and other capital items. If cash flow from operations was insufficient to fund distributions, we may suspend paying such distributions.

We use distributable earnings, which is derived from ANI, to assess performance and assist in the determination of equity distributions from the Operating Group. Our quarterly distributable earnings may be affected by potential seasonal factors that may, in turn, affect the level of the cash distributions applicable to a particular quarter. For example, we generally receive tax-related incentive distributions from certain closed-end funds in the first quarter of the year, which if received generate distributable earnings in that period. Additionally, DoubleLine's corporate distributions to us may vary in length of period covered. For example, the quarterly distributions made in the second and fourth quarters typically have covered two and four months of activity, respectively. The distribution amount for any given period is likely to vary materially due to these and other factors.

Tax distributions are not required in respect of the Class A units and are only required from the Oaktree Operating Group entities if and to the extent there is sufficient cash available for distribution. Accordingly, if there

were insufficient cash flow from operations to fund quarterly or tax distributions by the Oaktree Operating Group entities, we expect that these distributions would not be made. We believe that we have sufficient access to cash from existing balances, our operations and the revolving credit facility described below to fund our operations and commitments.

### **Consolidated Cash Flows**

The accompanying condensed consolidated statements of cash flows include our consolidated funds, despite the fact that we typically have only a minority economic interest in those funds. The assets of consolidated funds, on a gross basis, are larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our condensed consolidated statements of cash flows. The primary cash flow activities of our consolidated funds involve:

- raising capital from third-party investors;
- using the capital provided by us and third-party investors to fund investments and operating expenses;
- financing certain investments with indebtedness;
- generating cash flows through the realization of investments, as well as the collection of interest and dividend income; and
- distributing net cash flows to fund investors and to us.

Because our consolidated funds are either treated as investment companies for accounting purposes or represent CLOs whose primary operations are investing activities, their investing cash flow amounts are included in our cash flows from operations. We believe that each of the consolidated funds and Oaktree has sufficient access to cash to fund their respective operations in the near term.

Significant amounts from our condensed consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 are discussed below.

#### *Operating Activities*

Net cash used in operating activities was \$73.7 million and \$240.5 million in the first six months of 2017 and 2016, respectively. These amounts principally reflected net purchases of securities of the consolidated funds of \$540.7 million and \$413.3 million for the first six months of 2017 and 2016, respectively, partially offset by net income in each respective period.

#### *Investing Activities*

Net cash provided by investing activities was \$299.4 million and \$67.7 million in the first six months of 2017 and 2016, respectively. Net activity from purchases, maturities and sales of U.S. Treasury and time deposit securities included net proceeds of \$202.6 million and net purchases of \$23.1 million for the first six months of 2017 and 2016, respectively. Corporate investments in funds and companies of \$22.8 million and \$37.2 million for the first six months of 2017 and 2016, respectively, consisted of the following:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Funds .....	\$ 196,472	\$ 96,059
Eliminated in consolidation .....	(173,673)	(58,831)
Total investments .....	<u>\$ 22,799</u>	<u>\$ 37,228</u>

Distributions and proceeds from corporate investments in funds and companies of \$133.7 million and \$132.2 million for the first six months of 2017 and 2016, respectively, consisted of the following:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Funds .....	\$ 156,764	\$ 168,212
Eliminated in consolidation .....	(23,111)	(36,053)
Total proceeds .....	<u>\$ 133,653</u>	<u>\$ 132,159</u>

Purchases of fixed assets were \$14.0 million and \$4.2 million for the first six months of 2017 and 2016, respectively.

### *Financing Activities*

Financing activities provided \$1.2 million and \$178.7 million of cash in the first six months of 2017 and 2016, respectively. For the first six months of 2017 and 2016, respectively, financing activities included: (a) net contributions from non-controlling interests in consolidated funds of \$63.1 million and \$40.7 million; (b) net borrowings on credit facilities of the consolidated funds of \$228.8 million and net repayments of \$36.0 million; (c) distributions to unitholders of \$240.4 million and \$179.7 million; (d) net unit purchases of \$9.7 million and \$10.3 million; and (e) payments for debt issuance costs of \$3.7 million and \$8.8 million. The first six months of 2017 included proceeds from refinancing CLO debt obligations of \$1,208.9 million and repayments of \$1,243.4 million. The first six months of 2016 included proceeds from the issuance of CLO debt obligations of \$426.3 million and the maturity of \$50.0 million in senior notes.

### *Future Sources and Uses of Liquidity*

We expect to continue to make distributions to our Class A unitholders pursuant to our distribution policy. In the future, we may also issue additional units or debt and other equity securities with the objective of increasing our available capital. In addition, we may, from time to time, repurchase our Class A units in open market or privately negotiated purchases or otherwise, redeem our Class A units pursuant to the terms of our operating agreement, or repurchase OCGH units.

In addition to our ongoing sources of cash that include management fees, incentive income and distributions related to our corporate investments in funds and companies, we also have access to liquidity through our debt financings and credit agreements. We believe that the sources of liquidity described below will be sufficient to fund our working capital requirements for at least the next twelve months.

In July 2016, our indirect subsidiary, Oaktree Capital Management, L.P. (the "Issuer"), issued and sold to certain accredited investors \$100 million of 3.69% senior notes (the "2016 Notes") due July 12, 2031. The Notes are senior unsecured obligations of the Issuer, jointly and severally guaranteed by our indirect subsidiaries, Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. (together with the Issuer, the "Obligors") pursuant to a note and guaranty agreement (the "2016 Note Agreement"). We used the proceeds from the sale of the 2016 Notes to simultaneously repay \$100 million of our \$250 million term loan due March 31, 2021.

The 2016 Note Agreement provides for certain affirmative and negative covenants, including financial covenants relating to the Obligors' combined leverage ratio and minimum assets under management. In addition, the 2016 Note Agreement contains customary representations and warranties of the Obligors and customary events of default, in certain cases, subject to cure periods. The Issuer may prepay all, or from time to time any part of, the 2016 Notes at any time, subject to the Issuer's payment of the applicable make-whole amount determined with respect to such principal amount prepaid. Upon the occurrence of a change of control, the Issuer will be required to make an offer to prepay the Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

In March 2016, Oaktree Capital Management, L.P., Oaktree Capital II, L.P., Oaktree AIF Investments, L.P., and Oaktree Capital I, L.P. (collectively, the "Borrowers") entered into the Second Amendment to Credit Agreement (the "Second Amendment"), which amended the credit agreement dated as of March 31, 2014 (as amended through and including the Second Amendment, the "Credit Agreement"). The Credit Agreement consists of a \$250 million fully-funded term loan (the "Term Loan"), of which \$100 million was repaid in July 2016, and a \$500 million

revolving credit facility (the “Revolver”). The Second Amendment extended the maturity date of the Credit Agreement from March 31, 2019 to March 31, 2021, at which time the entire remaining principal balance of \$150 million is due, and provides the Borrowers with the option to extend the new maturity date by one year if the lenders holding at least 50% of the aggregate amount of the term loan and the revolving loan commitment thereunder on the date of the Borrowers’ extension request consent to such extension. Borrowings under the Credit Agreement generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the Revolver is 0.125% per annum. The Credit Agreement contains customary financial covenants and restrictions, including ones regarding a maximum leverage ratio of 3.0-to-1.0 and a minimum required level of assets under management (as defined in the credit agreement). The Second Amendment increased the minimum level of assets under management to \$60 billion and made certain other amendments to the provisions of the Credit Agreement. As of June 30, 2017, we had no outstanding borrowings under our \$500 million revolving credit facility.

In September 2014, Oaktree Capital Management, L.P. issued and sold to certain accredited investors \$50 million aggregate principal amount of 3.91% Senior Notes, Series A, due September 3, 2024 (the “Series A Notes”), \$100 million aggregate principal amount of 4.01% Senior Notes, Series B, due September 3, 2026 (the “Series B Notes”) and \$100 million aggregate principal amount of 4.21% Senior Notes, Series C, due September 3, 2029 (the “Series C Notes” and together with the Series A Notes and the Series B Notes, the “2014 Notes”) pursuant to a note and guarantee agreement (the “2014 Note Agreement”). The 2014 Notes are senior unsecured obligations of the issuer, guaranteed on a joint and several basis by Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. Interest on the 2014 Notes is payable semi-annually.

The 2014 Note Agreement provides for certain affirmative and negative covenants, including financial covenants relating to the issuer’s and guarantors’ combined leverage ratio and minimum assets under management. In addition, the 2014 Note Agreement contains customary representations and warranties of the issuer and the guarantors, and customary events of default, in certain cases, subject to cure periods. The issuer may prepay all, or from time to time any part of, the 2014 Notes at any time, subject to the issuer’s payment of the applicable make-whole amount determined with respect to such principal amount prepaid. Upon the occurrence of a change of control, the issuer will be required to make an offer to prepay the 2014 Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

In November 2009, Oaktree Capital Management, L.P. issued \$250 million in aggregate principal amount of senior notes due December 2, 2019 (the “2009 Notes”). The indenture governing the 2009 Notes contains customary financial covenants and restrictions that, among other things, limit the issuer’s ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit-participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The 2009 Notes do not contain financial maintenance covenants.

We are required to maintain minimum net capital balances for regulatory purposes in the U.S. and certain non-U.S. jurisdictions in which we do business, which are met in part by retaining cash and cash-equivalents in those jurisdictions. As a result, we may be restricted in our ability to transfer cash between different jurisdictions. As of June 30, 2017, we were required to maintain approximately \$132.5 million in net capital at these subsidiaries and were in compliance with all regulatory minimum net capital requirements as of such date.

Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. have entered into a tax receivable agreement with OCGH unitholders that, as amended, provides for the payment to an exchanging or selling OCGH unitholder of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that they actually realize (or are deemed to realize in the case of an early termination payment by Oaktree Holdings, Inc. or Oaktree AIF Holdings, Inc., or a change of control) as a result of an increase in the tax basis of the assets owned by the Oaktree Operating Group. Assuming no material changes in the relevant tax law and that the Company earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, as of June 30, 2017, future payments of this nature were estimated to aggregate \$33.4 million over the period ending approximately in 2029 with respect to the 2007 Private Offering and \$71.3 million over the period ending approximately in 2034 with respect to our initial public offering.

In May 2013, we issued and sold 8,050,000 Class A units in a public offering (the “May 2013 Offering”), resulting in \$419.9 million in net proceeds to us. We did not retain any proceeds from the sale of Class A units in the May 2013 Offering, and we used the net proceeds from the May 2013 Offering to acquire interests in our business from certain Oaktree directors, employees and other investors, including certain senior executives and

other members of our senior management. The exchange of OCGH units in connection with the May 2013 Offering resulted in increases in the tax basis of the tangible and intangible assets of the Oaktree Operating Group. As a result, we recorded a deferred tax asset of \$134.4 million and an associated liability of \$114.2 million for payments to OCGH unitholders under the tax receivable agreement, which together increased capital by \$20.2 million. As of June 30, 2017, future payments with respect to the May 2013 Offering were estimated to aggregate \$99.0 million over the period ending approximately in 2035.

In March 2014, we issued and sold 5,000,000 Class A units in a public offering (the “March 2014 Offering”), resulting in \$296.7 million in proceeds to us. We did not retain any proceeds from the sale of Class A units in the March 2014 Offering. The proceeds from the March 2014 Offering were used to acquire interests in our business from certain Oaktree directors, employees and other investors, including certain senior executives and other members of our senior management. The exchange of OCGH units in connection with the March 2014 Offering resulted in increases in the tax basis of the tangible and intangible assets of the Oaktree Operating Group. As a result, we recorded a deferred tax asset of \$94.2 million and an associated liability of \$80.0 million for payments to OCGH unitholders under the tax receivable agreement, which together increased capital by \$14.1 million. As of June 30, 2017, future payments with respect to the March 2014 Offering were estimated to aggregate \$74.5 million over the period ending approximately in 2036.

In March 2015, we issued and sold 4,600,000 Class A units in a public offering (the “March 2015 Offering”), resulting in \$237.8 million in proceeds to us. We did not retain any proceeds from the sale of Class A units in the March 2015 Offering. The proceeds from the March 2015 Offering were used to acquire interests in our business from certain Oaktree directors, employees and other investors, including certain senior executives and other members of the Company’s senior management. The exchange of OCGH units in connection with the March 2015 Offering resulted in increases in the tax basis of the tangible and intangible assets of the Oaktree Operating Group. As a result, we recorded a deferred tax asset of \$73.5 million and an associated liability of \$62.5 million for payments to OCGH unitholders under the tax receivable agreement, which together increased capital by \$11.0 million. As of June 30, 2017, future payments with respect to the March 2015 Offering were estimated to aggregate \$62.7 million over the period ending approximately in 2037.

No amounts were paid under the tax receivable agreement during the six months ended June 30, 2017.

## Contractual Obligations, Commitments and Contingencies

In the ordinary course of business, Oaktree and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information related to anticipated future cash payments as of June 30, 2017:

	Last Six Months of 2017	2018-2019	2020-2021	Thereafter	Total
	(in thousands)				
<b>Oaktree and Operating Subsidiaries:</b>					
Operating lease obligations <sup>(1)</sup> .....	\$ 3,415	\$ 30,154	\$ 32,408	\$ 72,045	\$ 138,022
Debt obligations payable <sup>(2)</sup> .....	—	250,000	150,000	350,000	750,000
Interest obligations on debt <sup>(3)</sup> .....	16,915	70,597	32,374	95,050	214,936
Tax receivable agreement .....	20,677	43,757	47,879	228,653	340,966
Contingent consideration <sup>(4)</sup> .....	24,029	—	—	—	24,029
Commitments to Oaktree and third-party funds <sup>(5)</sup> .....	460,434	—	—	—	460,434
Subtotal .....	<u>525,470</u>	<u>394,508</u>	<u>262,661</u>	<u>745,748</u>	<u>1,928,387</u>
<b>Consolidated Funds:</b>					
Debt obligations payable <sup>(2)</sup> .....	254,000	—	—	488,998	742,998
Interest obligations on debt <sup>(3)</sup> .....	8,057	26,358	26,358	78,399	139,172
Debt obligations of CLOs <sup>(2)</sup> .....	—	24,129	—	3,099,250	3,123,379
Interest on debt obligations of CLOs <sup>(3)</sup> .....	36,505	145,126	144,275	484,294	810,200
Commitments to fund investments <sup>(6)</sup> .....	11,312	—	—	—	11,312
Total .....	<u>\$ 835,344</u>	<u>\$ 590,121</u>	<u>\$ 433,294</u>	<u>\$ 4,896,689</u>	<u>\$ 6,755,448</u>

- (1) We lease our office space under agreements that expire periodically through 2030. The table includes only guaranteed minimum lease payments for these leases and does not project other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities in our consolidated financial statements.
- (2) These obligations represent future principal payments, gross of debt issuance costs, and for CLOs, the par value.
- (3) Interest obligations include accrued interest on outstanding indebtedness. Where applicable, current interest rates are applied to estimate future interest obligations on variable-rate debt.
- (4) This represents the undiscounted contingent consideration obligation as of June 30, 2017 related to the 2014 Highstar acquisition, which is payable in a combination of cash and fully-vested OCGH units. The amount of the contingent consideration obligation is based on the achievement of certain performance targets over a period of up to seven years from the acquisition date. Due to uncertainty in the timing of payment, if any, the entire amount is presented in the 2017 column.
- (5) These obligations represent commitments by us to provide general partner capital funding to our funds and limited partner capital funding to funds managed by unaffiliated third parties. These amounts are generally due on demand and are therefore presented in the 2017 column. Capital commitments are expected to be called over a period of several years.
- (6) These obligations represent commitments by our funds to make investments or fund uncalled contingent commitments. These amounts are generally due either on demand or by various contractual dates that vary by investment and are therefore presented in the 2017 column. Capital commitments are expected to be called over a period of several years.

In some of our service contracts or management agreements, we have agreed to indemnify third-party service providers or separate account clients under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has neither been included in the above table nor recorded in our condensed consolidated financial statements as of June 30, 2017.

As of June 30, 2017, none of the incentive income we had recognized was subject to clawback by the funds.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements. Please see note 15 for information on our commitments and contingencies.

## Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe our critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. For a summary of our significant accounting policies, please see the notes to our condensed consolidated financial statements included elsewhere in this quarterly report and the notes to our consolidated financial statements in our annual report. For a summary of our critical accounting policies, please see "Management's Discussion and Analysis of Financial Condition and Result of Operations—Critical Accounting Policies" in our annual report.

The table below summarizes the investments and other financial instruments, net of debt obligations, by fund structure and fair-value hierarchy levels, held by our consolidated funds for each period presented in our condensed consolidated statements of financial condition (in thousands):

<u>As of June 30, 2017:</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Closed-end funds .....	\$ 6,379	\$ 980,629	\$ 184,801	\$ 1,171,809
Open-end funds .....	1,782	227,542	16,317	245,641
Evergreen funds .....	139,636	324	867	140,827
Total .....	<u>\$ 147,797</u>	<u>\$ 1,208,495</u>	<u>\$ 201,985</u>	<u>\$ 1,558,277</u>
<u>As of December 31, 2016:</u>				
Closed-end funds .....	\$ 6,078	\$ 320,688	\$ 242,961	\$ 569,727
Open-end funds .....	37,608	59,832	—	97,440
Evergreen funds .....	44,660	(941)	1,393	45,112
Total .....	<u>\$ 88,346</u>	<u>\$ 379,579</u>	<u>\$ 244,354</u>	<u>\$ 712,279</u>

## Recent Accounting Developments

Please see note 2 to our condensed consolidated financial statements included elsewhere in this quarterly report for information regarding recent accounting developments.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to a broad range of risks inherent in the financial markets in which we participate, including price risk, interest-rate risk, access to and cost of financing risk, liquidity risk, counterparty risk and foreign exchange-rate risk. Potentially negative effects of these risks may be mitigated to a certain extent by those aspects of our investment approach, investment strategies, fundraising practices or other business activities that are designed to benefit, either in relative or absolute terms, from periods of economic weakness, tighter credit or financial market dislocations.

Our predominant exposure to market risk is related to our role as general partner or investment adviser to our funds and as an investor in our CLOs, and the sensitivities to movements in the fair value of their investments on management fees, incentive income and investment income, as applicable. The fair value of the financial assets and liabilities of our funds and CLOs may fluctuate in response to changes in, among many factors, the fair value of securities, foreign-exchange rates, commodities prices and interest rates.

### Price Risk

#### **Impact on Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments**

As of June 30, 2017, we had investments, at fair value of \$4.7 billion related to our consolidated funds, primarily consisting of investments held by our CLOs. We estimate that a 10% decline in market values would result in a decrease in unrealized appreciation (depreciation) on the consolidated funds' investments of \$474.0 million. Of this decline, approximately \$178.0 million would impact net income attributable to Oaktree Capital

Group, LLC, with the remainder attributable to non-controlling interests and third-party debt holders in our CLOs. The magnitude of the impact on net income attributable to Oaktree Capital Group, LLC is largely affected by the percentage of our equity ownership interest and levered nature of our CLO investments.

#### ***Impact on Management Fees (before the consolidation of funds)***

Management fees are generally assessed in the case of (a) our open-end and evergreen funds, based on NAV, and (b) our closed-end funds, based on committed capital, drawn capital or cost basis during the investment period and, during the liquidation period, based on the lesser of (i) the total funded committed capital or (ii) the cost basis of assets remaining in the fund. Management fees are affected by changes in market values to the extent they are based on NAV. For the six months ended June 30, 2017 and 2016, NAV-based management fees represented approximately 32% and 29%, respectively, of total management fees. Based on investments held as of June 30, 2017, we estimate that a 10% decline in market values of the investments held in our funds would result in an approximate \$6.1 million decrease in the amount of quarterly management fees. These estimated effects are without regard to a number of factors that would be expected to increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds or the timing of fund flows.

#### ***Impact on Incentive Income (before the consolidation of funds)***

Incentive income is recognized only when it is known or knowable, which in the case of (a) our closed-end funds, generally occurs only after all contributed capital and an annual preferred return on that capital (typically 8%) have been distributed to the fund's investors and (b) our active evergreen funds, generally occurs as of December 31, based on the increase in the fund's NAV during the year, subject to any high-water marks or hurdle rates. In the case of closed-end funds, the link between short-term fluctuations in market values and a particular period's incentive income may in part be indirect. Thus the effect on incentive income of a 10% decline in market values is not readily quantifiable. A decline in market values would be expected to cause a decline in incentive income.

#### ***Impact on Investment Income (before the consolidation of funds)***

Investment income or loss arises from our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds or companies. This income is directly affected by changes in market risk factors. Based on investments held as of June 30, 2017, a 10% decline in fair values of the investments held in our funds and other holdings would result in a \$284.6 million decrease in the amount of investment income. The estimated decline of \$284.6 million is greater than 10% of the June 30, 2017 corporate investments balance primarily due to the levered nature of our CLO investments. These estimated effects are without regard to a number of factors that would be expected to increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds, the timing of fund flows or the timing of new investments or realizations.

#### **Exchange-rate Risk**

Our business is affected by movements in the exchange rate between the U.S. dollar and non-U.S. dollar currencies in the case of (a) management fees that vary based on the NAV of our funds that hold investments denominated in non-U.S. dollar currencies, (b) management fees received in non-U.S. dollar currencies, (c) operating expenses for our foreign offices that are denominated in non-U.S. dollar currencies and (d) cash balances we hold in non-U.S. dollar currencies. We manage our exposure to exchange-rate risks through our regular operating activities and, when appropriate, through the use of derivative instruments.

We estimate that for the six months ended June 30, 2017, without considering the impact of derivative instruments, a 10% decline in the average exchange rate of the U.S. dollar would have resulted in the following approximate effects on our operating results:

- our management fees (relating to (a) and (b) above) would have increased by \$4.9 million;
- our operating expenses would have increased by \$6.1 million;
- OCGH interest in net income of consolidated subsidiaries would have decreased by \$0.7 million; and
- our income tax expense would have decreased by \$0.2 million.

These movements would have decreased our net income attributable to OCG by \$0.3 million.

At any point in time, some of the investments held by our closed-end and evergreen funds may be denominated in non-U.S. dollar currencies on an unhedged basis. Changes in currency rates could affect incentive income, incentives created (fund level) and investment income with respect to such closed-end and evergreen funds; however, the degree of impact is not readily determinable because of the many indirect effects that currency movements may have on individual investments.

### **Credit Risk**

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In such agreements, we depend on the respective counterparty to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting to reputable financial institutions the counterparties with which we enter into financial transactions. In other circumstances, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

### **Interest-rate Risk**

As of June 30, 2017, Oaktree and its operating subsidiaries had \$746 million in debt obligations, consisting of three senior notes issuances and a funded term loan. Each senior notes issuance accrues interest at a fixed rate. The funded term loan accrues interest at a variable rate. As of June 30, 2017, interest expense attributable to Oaktree and its operating subsidiaries would increase by \$1.5 million on an annualized basis as a result of a 100-basis point increase in interest rates. Of the \$1.2 billion of aggregate cash and U.S. Treasury and time deposit securities as of June 30, 2017, we estimate that Oaktree and its operating subsidiaries would generate an additional \$11.6 million in interest income on an annualized basis as a result of a 100-basis point increase in interest rates.

Our consolidated funds have debt obligations, most of which accrue interest at variable rates. Changes in these rates would affect the amount of interest payments that our funds would have to make, impacting future earnings and cash flows. As of June 30, 2017, \$3.8 billion was outstanding under these debt obligations. We estimate that interest expense relating to variable-rate debt would increase on an annualized basis by \$36.2 million in the event interest rates were to increase by 100 basis points.

As credit-oriented investors, we are also subject to interest-rate risk through the securities we hold in our consolidated funds. A 100-basis point increase in interest rates would be expected to negatively affect prices of securities that accrue interest income at fixed rates and therefore negatively impact the net change in unrealized appreciation (depreciation) on consolidated funds' investments. The actual impact is dependent on the average duration of such holdings. Conversely, securities that accrue interest at variable rates would be expected to benefit from a 100-basis point increase in interest rates because these securities would generate higher levels of current income and therefore positively impact interest and dividend income. In cases where our funds pay management fees based on NAV, we would expect our management fees to experience a change in direction and magnitude corresponding to that experienced by the underlying portfolios.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control Over Financial Reporting**

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a discussion of legal proceedings, please see the section entitled “Legal Actions” in note 15 to our condensed consolidated financial statements included elsewhere in this quarterly report, which section is incorporated herein by reference. Also, please see “Item 1A. Risk Factors—Risks Related to Our Business—Extensive regulation in the United States and abroad affects our activities and creates the potential for significant liabilities and penalties that could adversely affect our business and results of operations” in our annual report.

### **Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, please see the information under “Risk Factors” in our annual report. There have been no material changes to the risk factors as disclosed in our annual report.

The risks described in our annual report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Under our operating agreement, we are required to issue one Class B unit for each OCGH unit issued. Accordingly, we issued 225,000 Class B units to OCGH on April 26, 2017 and 250,000 Class B units to OCGH on June 28, 2017, which corresponded to the number of OCGH units issued by OCGH pursuant to our 2011 Equity Incentive Plan, subject to time-based vesting.

No purchase price was paid by OCGH to the Company for the issuances of the Class B units to OCGH. These issuances, to the extent they constitute sales, were exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act, as transactions by an issuer not involving any public offering.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

None.

### **Item 5. Other Information**

#### **Fund Data**

Information regarding our closed-end, open-end and evergreen funds, together with benchmark data where applicable, is set forth below. For our closed-end and evergreen funds, no benchmarks are presented in the tables as there are no known comparable benchmarks for these funds’ investment philosophy, strategy and implementation.

## Closed-end Funds

As of June 30, 2017

	Investment Period		Total Committed Capital	% Invested <sup>(1)</sup>	% Drawn <sup>(2)</sup>	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive Income Recognized (Non-GAAP)	Accrued Incentives (Fund Level) <sup>(3)</sup>	Unreturned Drawn Capital Plus Accrued Preferred Return <sup>(4)</sup>	IRR Since Inception <sup>(5)</sup>		Multiple of Drawn Capital <sup>(6)</sup>
	Start Date	End Date											Gross	Net	
(in millions)															
<b>Distressed Debt</b>															
Oaktree Opportunities Fund Xb <sup>(7)</sup>	TBD	—	\$ 8,872	—%	—%	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	n/a	n/a	n/a
Oaktree Opportunities Fund X <sup>(7)</sup>	Jan. 2016	Jan. 2019	3,603	68	34	514	79	1,673	3,375	—	100	1,273	48.8%	29.3%	1.6x
Oaktree Opportunities Fund IX	Jan. 2014	Jan. 2017	5,066	nm	100	330	763	4,633	4,597	—	—	5,695	4.7	2.0	1.1
Oaktree Opportunities Fund VIIIb	Aug. 2011	Aug. 2014	2,692	nm	100	613	1,559	1,746	1,924	52	—	2,216	7.6	4.7	1.3
Special Account B	Nov. 2009	Nov. 2012	1,031	nm	100	570	1,321	354	343	16	—	274	13.5	11.1	1.6
Oaktree Opportunities Fund VIII	Oct. 2009	Oct. 2012	4,507	nm	100	2,376	5,412	1,472	1,344	165	297	932	12.8	8.9	1.6
Special Account A	Nov. 2008	Oct. 2012	253	nm	100	307	493	67	52	50	10	—	28.1	22.8	2.3
OCM Opportunities Fund VIIb	May 2008	May 2011	10,940	nm	90	8,931	17,743	1,032	881	1,534	201	—	21.9	16.6	2.0
OCM Opportunities Fund VII	Mar. 2007	Mar. 2010	3,598	nm	100	1,471	4,742	327	591	85	—	473	10.3	7.5	1.5
Legacy funds <sup>(8)</sup>	Various	Various	12,495	nm	100	10,454	22,912	37	—	1,555	8	—	23.6	18.5	1.9
													22.0%	16.2%	
<b>Real Estate Opportunities</b>															
Oaktree Real Estate Opportunities Fund VII <sup>(9)(10)</sup>	Jan. 2016	Jan. 2020	\$ 2,921	50%	10%	\$ 59	\$ 132	\$ 219	\$ 2,512	\$ —	\$ 11	\$ 173	nm	nm	1.5x
Oaktree Real Estate Opportunities Fund VI	Aug. 2012	Aug. 2016	2,677	nm	100	1,175	1,342	2,510	1,925	22	205	2,053	16.1%	10.7%	1.5
Oaktree Real Estate Opportunities Fund V	Mar. 2011	Mar. 2015	1,283	nm	100	974	1,765	492	262	73	113	13	17.6	13.0	1.8
Special Account D	Nov. 2009	Nov. 2012	256	nm	100	200	342	122	59	4	16	48	15.0	13.0	1.8
Oaktree Real Estate Opportunities Fund IV	Dec. 2007	Dec. 2011	450	nm	100	395	753	92	64	57	18	—	16.0	10.9	2.0
Legacy funds <sup>(8)</sup>	Various	Various	2,341	nm	99	2,011	4,316	12	—	231	2	—	15.2	11.9	1.9
													15.5%	11.9%	
<b>Real Estate Debt</b>															
Oaktree Real Estate Debt Fund II <sup>(9)(11)</sup>	Mar. 2017	Mar. 2020	\$ 773	41%	5%	\$ —	\$ —	\$ 36	\$ 309	\$ —	\$ —	\$ 37	nm	nm	1.1x
Oaktree Real Estate Debt Fund	Sep. 2013	Oct. 2016	1,112	nm	59	135	479	308	594	6	14	203	26.7%	20.2%	1.3
Oaktree PPIP Fund <sup>(12)</sup>	Dec. 2009	Dec. 2012	2,322	nm	48	457	1,570	—	—	47	—	—	28.2	n/a	1.4
<b>Real Estate Value-Add</b>															
Special Account G <sup>(9)(11)</sup>	Oct. 2016	Oct. 2020	\$ 615	40%	40%	\$ 8	\$ 19	\$ 232	\$ 237	\$ —	\$ —	\$ 235	nm	nm	1.1x
<b>European Principal <sup>(13)</sup></b>															
Oaktree European Principal Fund IV <sup>(7)(9)(14)</sup>	TBD	—	€ 1,112	21%	3%	€ (9)	€ —	€ 22	€ 307	€ —	€ —	€ 32	nm	nm	1.0x
Oaktree European Principal Fund III	Nov. 2011	Nov. 2016	€ 3,164	nm	85	€ 1,915	€ 798	€ 3,866	€ 2,682	€ —	€ 372	€ 2,805	19.6%	13.2%	1.8
OCM European Principal Opportunities Fund II	Dec. 2007	Dec. 2012	€ 1,759	nm	100	€ 442	€ 1,867	€ 307	€ 794	€ 29	€ —	€ 688	8.8	4.8	1.4
OCM European Principal Opportunities Fund	Mar. 2006	Mar. 2009	\$ 495	nm	96	\$ 454	\$ 927	\$ —	\$ —	\$ 87	\$ —	\$ —	11.7	8.9	2.1
													13.6%	9.1%	

	Investment Period		Total Committed Capital	% Invested <sup>(1)</sup>	% Drawn <sup>(2)</sup>	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive Income Recognized (Non-GAAP)	Accrued Incentives (Fund Level) <sup>(3)</sup>	Unreturned Drawn Capital Plus Accrued Preferred Return <sup>(4)</sup>	IRR Since Inception <sup>(5)</sup>		Multiple of Drawn Capital <sup>(6)</sup>
	Start Date	End Date											Gross	Net	
(in millions)															
<b>European Private Debt <sup>(13)</sup></b>															
Oaktree European Capital Solutions Fund <sup>(7)(11)</sup> ...	Dec. 2015	Dec. 2018	€ 703	41%	32%	€ 7	€ 89	€ 134	€ 160	€ —	€ —	€ 136	8.7%	5.6%	1.1x
Oaktree European Dislocation Fund .....	Oct. 2013	Oct. 2016	€ 294	nm	57	€ 37	€ 161	€ 58	€ 73	€ 2	€ 4	€ 38	21.5	15.3	1.2
Special Account E .....	Oct. 2013	Apr. 2015	€ 379	nm	69	€ 60	€ 253	€ 68	€ 78	€ 4	€ 5	€ 47	14.4	11.1	1.3
													15.3%	11.2%	
<b>Special Situations <sup>(15)</sup></b>															
Oaktree Special Situations Fund <sup>(7)</sup> .....	Nov. 2015	Nov. 2018	\$ 1,377	75%	38%	\$ 133	\$ 99	\$ 551	\$ 1,244	\$ —	\$ 26	\$ 446	52.7%	28.4%	1.4x
<i>Other funds:</i>															
Oaktree Principal Fund V .....	Feb. 2009	Feb. 2015	\$ 2,827	nm	91%	\$ 431	\$ 1,592	\$ 1,425	\$ 1,689	\$ 50	\$ —	\$ 2,103	7.5%	3.3%	1.3x
Special Account C .....	Dec. 2008	Feb. 2014	505	nm	91	206	405	261	286	21	—	266	11.1	7.8	1.6
OCM Principal Opportunities Fund IV .....	Oct. 2006	Oct. 2011	3,328	nm	100	3,183	5,888	623	538	450	171	—	12.8	9.4	2.1
Legacy funds <sup>(8)</sup> .....	Various	Various	3,701	nm	100	2,717	6,397	21	—	236	4	—	14.4	11.1	1.8
													13.2%	9.5%	
<b>Power Opportunities</b>															
Oaktree Power Opportunities Fund IV .....	Nov. 2015	Nov. 2020	\$ 1,106	53%	45%	\$ 14	\$ 1	\$ 514	\$ 1,078	\$ —	\$ —	\$ 534	12.2%	3.3%	1.1x
Oaktree Power Opportunities Fund III .....	Apr. 2010	Apr. 2015	1,062	nm	66	410	581	527	418	24	55	317	21.5	13.3	1.7
OCM/GFI Power Opportunities Fund II .....	Nov. 2004	Nov. 2009	1,021	nm	53	1,439	1,982	—	—	100	—	—	76.1	58.8	3.8
OCM/GFI Power Opportunities Fund .....	Nov. 1999	Nov. 2004	449	nm	85	251	634	—	—	23	—	—	20.1	13.1	1.8
													34.6%	26.3%	
<b>Infrastructure Investing</b>															
Highstar Capital IV <sup>(16)</sup> .....	Nov. 2010	Nov. 2016	\$ 2,000	nm	100%	\$ 455	\$ 476	\$ 2,150	\$ 1,372	\$ —	\$ 4	\$ 2,214	14.1%	8.3%	1.4x
<b>U.S. Private Debt <sup>(17)</sup></b>															
Oaktree Mezzanine Fund IV <sup>(11)</sup> .....	Oct. 2014	Oct. 2019	\$ 852	58%	53%	\$ 56	\$ 68	\$ 442	\$ 420	\$ —	\$ 8	\$ 430	12.2%	8.6%	1.1x
Oaktree Mezzanine Fund III <sup>(18)</sup> .....	Dec. 2009	Dec. 2014	1,592	nm	89	414	1,502	335	339	15	23	302	15.0	10.4 / 8.4	1.4
OCM Mezzanine Fund II .....	Jun. 2005	Jun. 2010	1,251	nm	88	498	1,504	101	—	—	—	160	11.0	7.5	1.6
OCM Mezzanine Fund <sup>(19)</sup> .....	Oct. 2001	Oct. 2006	808	nm	96	302	1,075	—	—	38	—	—	15.4	10.8 / 10.5	1.5
													13.1%	8.7%	
<b>Emerging Markets Opportunities</b>															
Oaktree Emerging Market Opportunities Fund <sup>(20)</sup>	Sep. 2013	Sep. 2017	\$ 384	75%	75%	\$ 83	\$ 1	\$ 371	\$ 222	\$ —	\$ 15	\$ 343	15.1%	9.7%	1.3x
Special Account F .....	Jan. 2014	Jan. 2018	253	96	96	56	105	193	191	—	11	172	14.5	10.1	1.3
									31,535 <sup>(13)</sup>		1,747 <sup>(13)</sup>		14.8%	9.9%	
									Other <sup>(21)</sup>		7				
									Total <sup>(22)</sup>		\$ 1,754				

- (1) For our incentive-creating closed-end funds in their investment periods, this percentage equals invested capital divided by committed capital. Invested capital for this purpose is the sum of capital drawn from fund investors plus net borrowings, if any, outstanding, under a fund-level credit facility where such borrowings were made in lieu of drawing capital from fund investors.
- (2) Represents capital drawn from fund investors, net of distributions to such investors of uninvested capital, divided by committed capital. The aggregate change in drawn capital for the three months ended June 30, 2017 was \$1.2 billion.
- (3) Accrued incentives (fund level) exclude non-GAAP incentive income previously recognized.
- (4) Unreturned drawn capital plus accrued preferred return reflects the amount the fund needs to distribute to its investors as a return of capital and a preferred return (as applicable) before Oaktree is entitled to receive incentive income (other than tax distributions) from the fund.
- (5) The internal rate of return ("IRR") is the annualized implied discount rate calculated from a series of cash flows. It is the return that equates the present value of all capital invested in an investment to the present value of all returns of capital, or the discount rate that will provide a net present value of all cash flows equal to zero. Fund-level IRRs are calculated based upon the actual timing of cash contributions/distributions to investors and the residual value of such investor's capital accounts at the end of the applicable period being measured. Gross IRRs reflect returns before allocation of management fees, expenses and any incentive allocation to the fund's general partner. To the extent material, gross returns include certain transaction, advisory, directors or other ancillary fees ("fee income") paid directly to us in connection with our funds' activities (we credit all such fee income back to the respective fund(s) so that our funds' investors share pro rata in the fee income's economic benefit). Net IRRs reflect returns to non-affiliated investors after allocation of management fees, expenses and any incentive allocation to the fund's general partner.
- (6) Multiple of drawn capital is calculated as drawn capital plus gross income and, if applicable, fee income before fees and expenses divided by drawn capital.
- (7) Fund data include the performance of the main fund and any associated fund-of-one accounts, except the gross and net IRRs presented reflect only the performance of the main fund. Certain fund-of-one accounts pay management fees based on cost basis, rather than committed capital.

- (8) Legacy funds represent certain predecessor funds within the relevant strategy that have substantially or completely liquidated their assets, including funds managed by certain Oaktree investment professionals while employed at the Trust Company of the West prior to Oaktree's founding in 1995. When these employees joined Oaktree upon, or shortly after, its founding, they continued to manage the fund through the end of its term pursuant to a sub-advisory relationship between the Trust Company of the West and Oaktree.
- (9) The IRR is not considered meaningful ("nm") as the period from the initial capital contribution through June 30, 2017 was less than 18 months.
- (10) A portion of this fund pays management fees based on drawn, rather than committed, capital.
- (11) Management fees during the investment period are calculated on drawn capital or cost basis, rather than committed capital. As a result, as of June 30, 2017 management fee-generating AUM included only that portion of committed capital that had been drawn.
- (12) Due to differences in the allocation of income and expenses to this fund's two primary limited partners, the U.S. Treasury and Oaktree PPIP Private Fund, a combined net IRR is not presented. Of the \$2,322 million in capital commitments, \$1,161 million related to the Oaktree PPIP Private Fund, whose gross and net IRR were 24.7% and 18.6%, respectively.
- (13) Aggregate IRRs or totals are based on the conversion of cash flows or amounts, respectively, from euros to USD using the June 30, 2017 spot rate of \$1.14.
- (14) Management fees are based on aggregate contributed capital for the period from the initial investment date until the investment period start date, which includes indebtedness incurred in lieu of drawn capital.
- (15) Effective November 2016, the Global Principal strategy was renamed Special Situations. The aggregate gross and net IRRs presented for this strategy exclude the performance of Oaktree Special Situations Fund.
- (16) The fund follows the American-style distribution waterfall, whereby the general partner may receive an incentive allocation as soon as it has returned the drawn capital and paid a preferred return on the fund's realized investments (i.e., on a deal-by-deal basis). However, such cash distributions of incentives may be subject to repayment, or clawback. As of June 30, 2017, Oaktree had not recognized any incentive income from this fund. The accrued incentives (fund level) amount shown for this fund represents Oaktree's effective 8% of the potential incentives generated by this fund in accordance with the terms of the Highstar acquisition.
- (17) Effective April 2017, the Mezzanine Finance strategy was renamed U.S. Private Debt, and includes our Mezzanine Finance and Direct Lending funds.
- (18) The fund's partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. The net IRR for Class A interests was 10.4% and Class B interests was 8.4%. The combined net IRR for Class A and Class B interests was 9.5%.
- (19) The fund's partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. The net IRR for Class A interests was 10.8% and Class B interests was 10.5%. The combined net IRR for the Class A and Class B interests was 10.6%.
- (20) In the third quarter of 2016, the investment period for Oaktree Emerging Market Opportunities Fund was extended for a one year period until September 2017. However, management fees stepped down to the post-investment period basis effective October 1, 2016.
- (21) This includes our closed-end Senior Loan funds, CLOs, a non-Oaktree fund and certain separate accounts and co-investments.
- (22) The total excludes two closed-end funds with management fee-generating AUM aggregating \$463 million as of June 30, 2017, which has been included as part of the Strategic Credit strategy within the evergreen funds table.

## Open-end Funds

Strategy Inception	Management Fee-generating AUM as of June 30, 2017 (in millions)	Twelve Months Ended June 30, 2017			Since Inception through June 30, 2017					
		Rates of Return <sup>(1)</sup>			Annualized Rates of Return <sup>(1)</sup>			Sharpe Ratio		
		Oaktree		Relevant Benchmark	Oaktree		Relevant Benchmark	Oaktree Gross	Relevant Benchmark	
		Gross	Net		Gross	Net				
U.S. High Yield Bonds .....	1986	\$ 17,172	10.4 %	9.9 %	12.0 %	9.3 %	8.8 %	8.4 %	0.81	0.57
Global High Yield Bonds .....	2010	4,501	12.0	11.5	12.6	7.6	7.1	7.2	1.18	1.14
European High Yield Bonds ...	1999	1,073	11.0	10.4	11.9	8.2	7.6	6.4	0.72	0.46
U.S. Convertibles .....	1987	2,935	11.8	11.2	16.8	9.3	8.8	8.2	0.49	0.37
Non-U.S. Convertibles .....	1994	1,443	10.2	9.6	6.9	8.4	7.8	5.6	0.79	0.41
High Income Convertibles .....	1989	975	11.6	10.7	12.3	11.4	10.5	8.2	1.07	0.61
U.S. Senior Loans .....	2008	1,764	8.6	8.0	7.5	6.1	5.6	5.3	1.11	0.66
European Senior Loans .....	2009	1,718	6.0	5.4	6.3	8.2	7.6	8.8	1.72	1.72
Emerging Markets Equities ....	2011	3,575	30.4	29.4	23.7	1.3	0.5	0.3	0.06	0.01
Other .....		273								
Total		\$ 35,429								

(1) Returns represent time-weighted rates of return, including reinvestment of income, net of commissions and transaction costs. The returns for Relevant Benchmarks are presented on a gross basis.

## Evergreen Funds

Strategy Inception	AUM	As of June 30, 2017			Twelve Months Ended June 30, 2017		Since Inception through June 30, 2017	
		Management Fee-generating AUM (in millions)	Accrued Incentives (Fund Level)	Rates of Return <sup>(1)</sup>		Annualized Rates of Return <sup>(1)</sup>		
				Gross	Net	Gross	Net	
Strategic Credit <sup>(2)</sup> .....	2012	\$ 3,050	\$ 2,562	\$ 10	16.2%	12.8%	9.0%	6.5%
Value Opportunities .....	2007	1,126	1,059	— <sup>(3)</sup>	14.3	12.6	9.3	5.5
Emerging Markets Debt Total Return <sup>(4)</sup> ....	2015	423	378	1	21.4	16.8	16.0	12.5
Value Equities <sup>(5)</sup> .....	2012	404	379	5	44.0	36.6	20.2	14.7
			4,378	16				
Other <sup>(6)</sup>			472	6				
Restructured funds			—	4				
Total <sup>(2)</sup>		\$ 4,850	\$ 4,850	\$ 26				

(1) Returns represent time-weighted rates of return.

(2) Includes two closed-end funds with an aggregate \$439 million and \$463 million of AUM and management fee-generating AUM, respectively.

(3) As of June 30, 2017, the aggregate depreciation below high-water marks previously established for individual investors in the fund totaled approximately \$37 million for Value Opportunities.

(4) The rates of return reflect the performance of a composite of accounts, including a single account with a December 2014 inception date.

(5) Includes performance of a proprietary fund with an initial capital commitment of \$25 million since its inception in May 2012.

(6) Includes the Emerging Markets Absolute Return strategy and certain evergreen separate accounts in the Real Estate Debt and Emerging Markets Opportunities strategies.

**Item 6. Exhibits**

For a list of exhibits filed with this report, refer to the Exhibits Index on the page immediately preceding the exhibits, which Exhibit Index is incorporated herein by reference.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 4, 2017

**Oaktree Capital Group, LLC**

By: \_\_\_\_\_ /s/ Susan Gentile

Name: Susan Gentile

Title: Chief Accounting Officer and Managing Director  
and Authorized Signatory

## EXHIBITS INDEX

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	Restated Certificate of Formation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, filed with the SEC on June 17, 2011).
3.2	Third Amended and Restated Operating Agreement of the Registrant dated as of August 31, 2011 (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, filed with the SEC on September 2, 2011).
3.3	Amendment to Third Amended and Restated Operating Agreement of the Registrant dated as of March 29, 2012 (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, filed with the SEC on March 30, 2012).
3.4	Unit Designation, effective November 16, 2015 (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K, filed with the SEC on November 18, 2015).
10.1*	Second Amended and Restated Employment Agreement by and among the Registrant, Oaktree Capital Management, L.P. and Jay S. Wintrob dated April 26, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 5, 2017).
10.2*	Second Amended and Restated Grant Agreement under the Oaktree Capital Group, LLC 2011 Equity Incentive Plan by and among Oaktree Capital Group Holdings, L.P., Oaktree Capital Group Holdings GP, LLC and Jay S. Wintrob effective as of April 26, 2017 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 5, 2017).
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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\* Management contract or compensatory plan or arrangement.

## CERTIFICATION

I, Jay S. Wintrob, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 of Oaktree Capital Group, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ Jay S. Wintrob

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Jay S. Wintrob

*Chief Executive Officer*

*(Principal Executive Officer)*

## CERTIFICATION

I, Daniel D. Levin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 of Oaktree Capital Group, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ Daniel D. Levin

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Daniel D. Levin

*Chief Financial Officer*

*(Principal Financial Officer)*

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Oaktree Capital Group, LLC (the "Company") for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay S. Wintrob, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented.

Date: August 4, 2017

/s/ Jay S. Wintrob

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Jay S. Wintrob

*Chief Executive Officer*

*(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Oaktree Capital Group, LLC (the "Company") for the quarter ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel D. Levin, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented.

Date: August 4, 2017

/s/ Daniel D. Levin

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Daniel D. Levin

*Chief Financial Officer*

*(Principal Financial Officer)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.