

# OAKTREE CAPITAL GROUP, LLC



OAKTREE

Third Quarter 2017

# Forward-Looking Statements & Safe Harbor

This presentation contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the “Securities Act”) and Section 21E of the U.S. Securities Exchange Act of 1934, each as amended, which reflect the current views of Oaktree Capital Group, LLC (the “Company” or “OCG”), with respect to, among other things, its 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 the Company’s beliefs, assumptions and expectations of its future performance, taking into account all information currently available to the Company. Such forward-looking statements are subject to risks and uncertainties and assumptions relating to the Company’s operations, financial results, financial condition, business prospects, growth strategy and liquidity, including, but not limited to, changes in the Company’s anticipated revenue and income, which are inherently volatile; changes in the value of the Company’s investments; the pace of raising new funds; changes in assets under management; the timing and receipt of, and impact of taxes on, carried interest; distributions from and liquidation of the Company’s existing funds; the amount and timing of distributions on the Company’s Class A units; changes in the Company’s operating or other expenses; the degree to which the Company encounters competition; and general political, economic and market conditions. The factors listed in the section captioned “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, 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 the Company’s actual results to differ materially from the expectations described in its forward-looking statements. Forward-looking statements speak only as of the date the statements are made. Except as required by law, the Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Oaktree believes that such information is accurate and that the sources from which it has been obtained are reliable; however, Oaktree cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based. Moreover, independent third-party sources cited herein are not making any representations or warranties regarding any information attributed to them and shall have no liability in connection with the use of such information herein.

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The Company discloses certain non-GAAP financial measures in this presentation, including adjusted net income (“ANI”), distributable earnings (“DE”), fee-related earnings (“FRE”) and economic net income (“ENI”). Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) are presented in the Appendix. Capitalized terms in the Appendix, including in the footnotes, that are not otherwise defined shall have the meanings ascribed to them in the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the SEC on November 3, 2017, which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov).

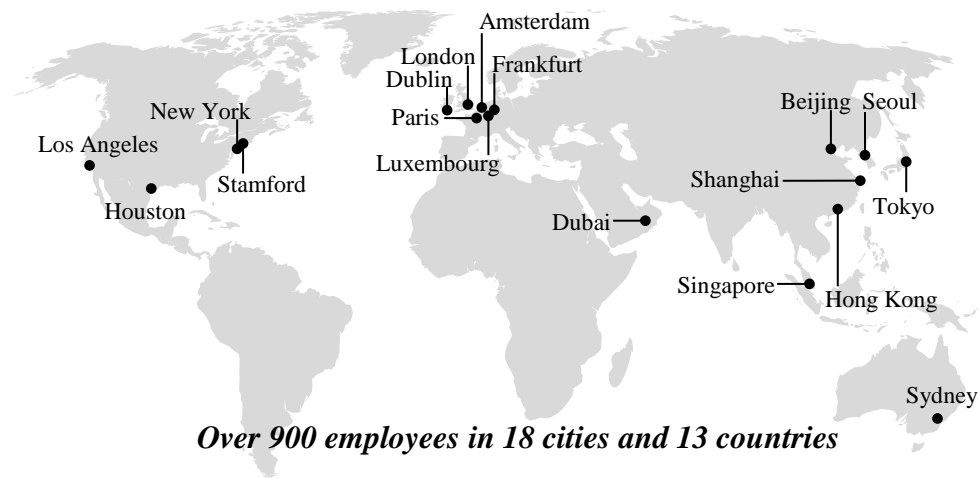
Unless otherwise indicated, all data in this presentation is on a non-GAAP basis for Oaktree Capital Group, LLC and is as of September 30, 2017.

# Oaktree: A Leading Global Alternative Asset Manager

## OVERVIEW

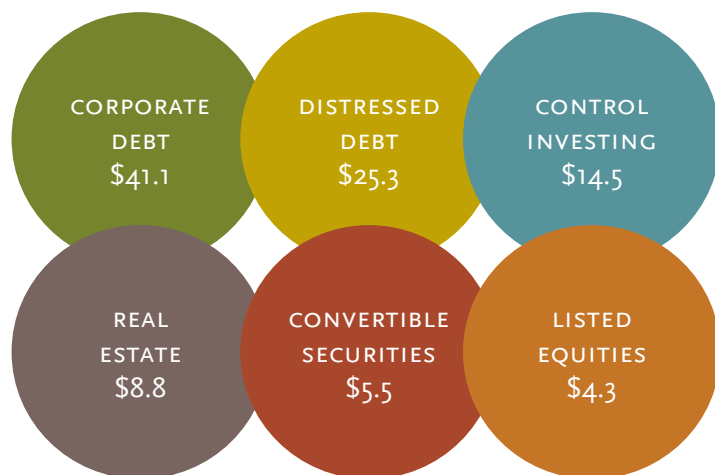
- A leader and pioneer in alternative asset management with \$100 billion of AUM
- Diversified mix of pro- and counter-cyclical strategies
- Strong, risk-adjusted investment performance
- A loyal, blue-chip institutional client base
- Attractive growth prospects for new and established strategies

## GLOBAL FOOTPRINT <sup>1</sup>



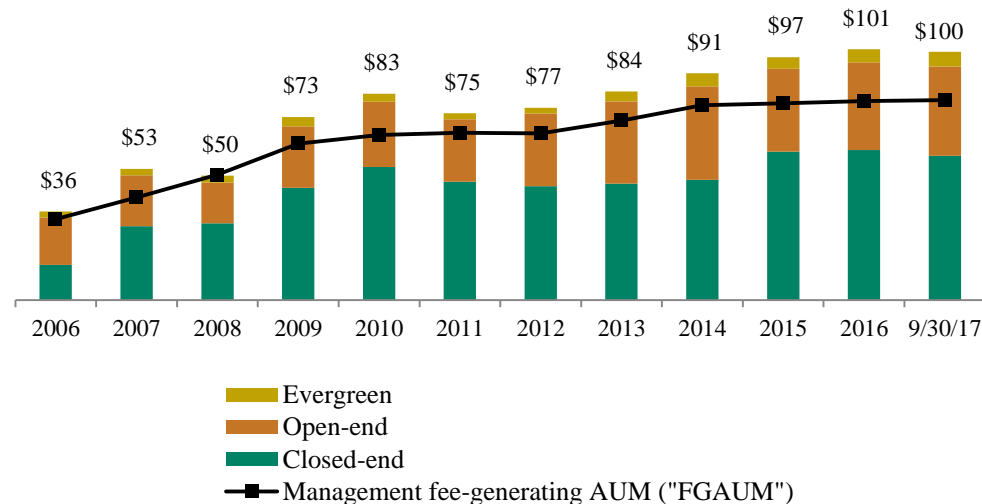
## INVESTMENT AREAS <sup>2</sup>

Assets Under Management (\$ in billions)



## HISTORICAL ASSETS UNDER MANAGEMENT

As of December 31, unless otherwise indicated (\$ in billions)



<sup>1</sup> Includes offices of affiliates of Oaktree-managed funds. Oaktree headquarters is based in Los Angeles.

<sup>2</sup> Assets under management presented above exclude \$75 million of assets in the Japan Opportunities strategy.

# Foundation of Oaktree

## INVESTMENT PHILOSOPHY

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- Primacy of risk control
- Emphasis on consistency
- Importance of market inefficiency
- Benefits of specialization
- Macro-forecasting not critical to investing
- Disavowal of market timing

## BUSINESS PRINCIPLES

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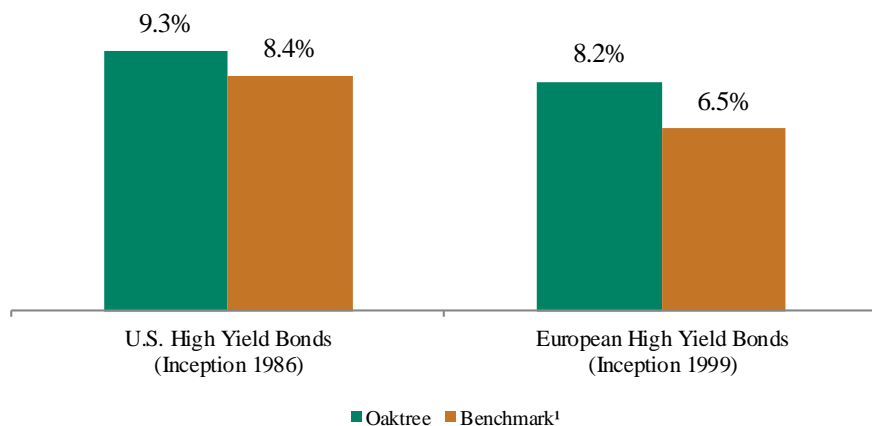
- Excellence in investing
- Proprietary, in-depth research
- Commonality of interests with clients
- Transparent client communications
- Fair, explicit management fee arrangements
- Harmonious, cooperative workplace
- New products are usually “step-outs”
- Profit should stem from performance

**Oaktree’s mission is to deliver superior investment results with risk under control and to conduct our business with the highest integrity**

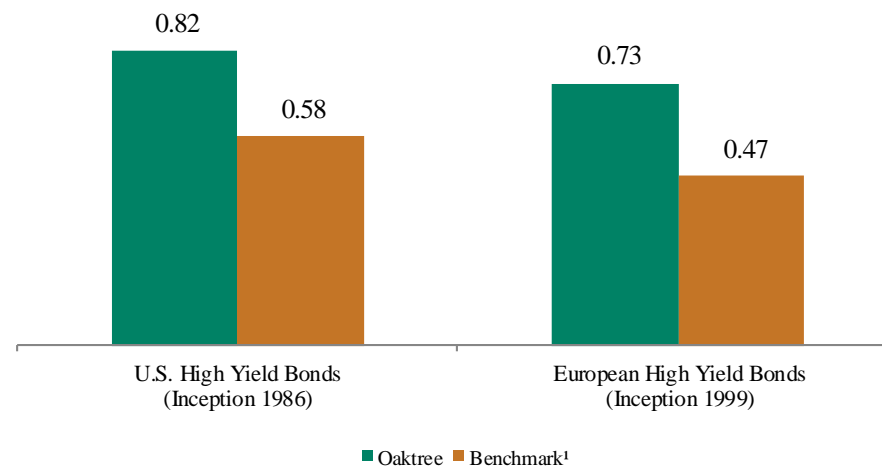
# History of Exceptional Investment Performance

## SUPERIOR RETURNS, BOTH GROSS AND RISK-ADJUSTED, IN OUR OPEN-END FUNDS

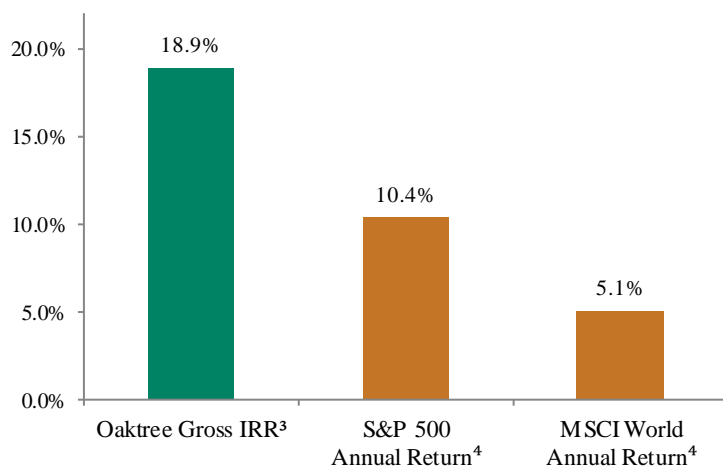
Annualized gross return since inception



Sharpe ratio since inception<sup>2</sup>



## OUTSTANDING TRACK RECORD IN OUR CLOSED-END FUNDS



Aggregate closed-end gross IRR **18.9%**<sup>3</sup>

Drawn capital **\$77 billion**<sup>3</sup>

% of funds more than 18 months old with positive gross and net IRRs **98%**

<sup>1</sup> Detail on benchmarks is presented in the Appendix.

<sup>2</sup> The Sharpe Ratio is a metric used to calculate risk-adjusted return. It is the ratio of excess return to volatility, with excess return defined as the return above that of a riskless asset (three-month T-bill) divided by the standard deviation of such returns. The higher the Sharpe Ratio, the greater the return for a given level of risk compared to the risk-free rate.

<sup>3</sup> Since oldest strategy inception in October 1988. Excludes closed-end Senior Loan funds, CLOs, Oaktree Asia Special Situations Fund, Asia Principal Opportunities Fund, certain separate accounts and co-investments.

<sup>4</sup> Represents annualized time-weighted return since October 1988.

# A Diverse and Growing Base of Clients

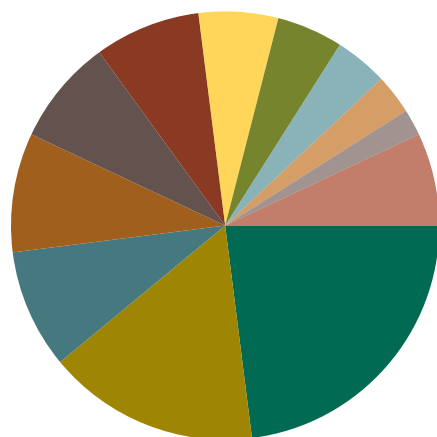
## SIGNIFICANT BASE OF BLUE-CHIP CLIENTELE

100 largest U.S. pension funds	75
States	38
Corporations	423
Colleges, Universities, Endowments & Foundations	367
Sovereign wealth funds	16

## SUCCESS IN CROSS SELLING

	% AUM
Clients in 4 or more strategies	38%
Clients in 2–3 strategies	37%
<b>Total in multiple strategies</b>	<b>75%</b>

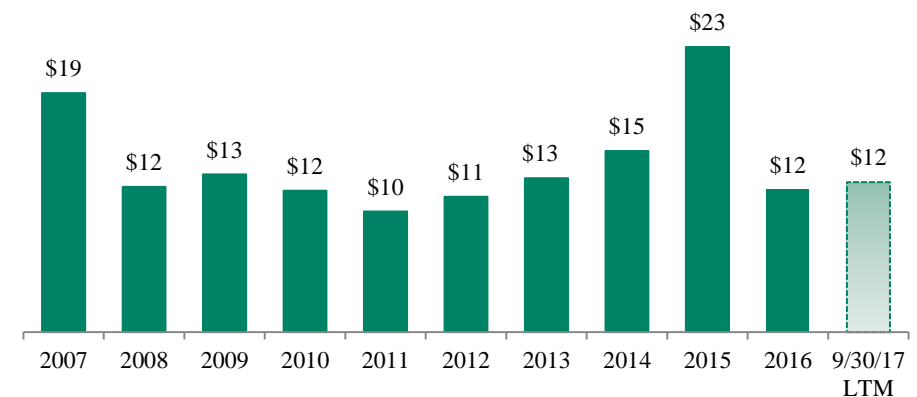
## DIVERSE CLIENTELE



- Public Funds 23%
- Corporate Pensions 16%
- Insurance Companies 9%
- Sub-Advisory – Mutual Funds 9%
- Sovereign Wealth Funds 8%
- Corporate 8%
- Endowments/Foundations 6%
- Private – HNW/Family Office 5%
- Oaktree and Affiliates 4%
- Fund of Funds 3%
- Unions 2%
- Other 7%

## GROSS CAPITAL RAISED

For the year ended December 31, unless otherwise noted (\$ in billions)

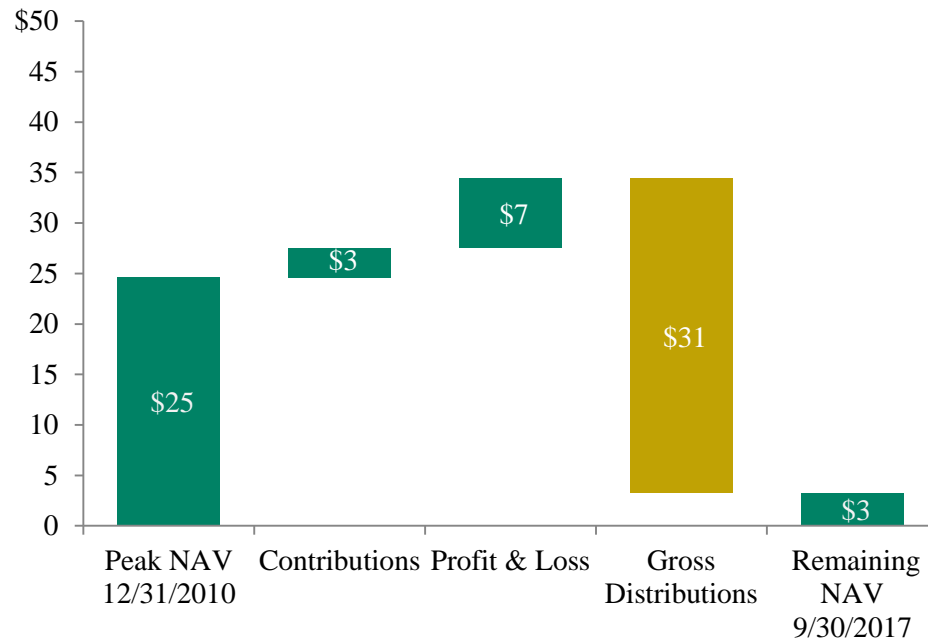


**\$10 billion or more of gross capital raised for 10 consecutive years**

# Excellence in Distressed Debt Investing

## SUBSTANTIAL HARVESTING SINCE PEAK NAV<sup>1</sup>

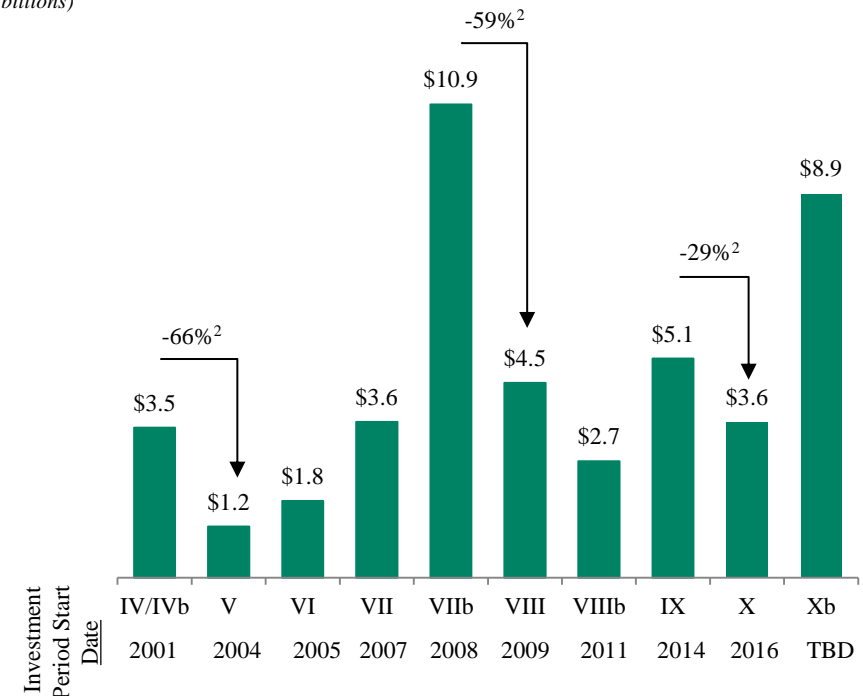
(\$ in billions)



- Invest opportunistically in mostly senior or secured debt of financially distressed companies with hard asset values, dependable cash flows and durable business franchises
- Seek to combine protection against loss, which comes from buying claims on assets at bargain prices, with substantial gains to be achieved by returning companies to financial viability through restructuring
- Take advantage of a broad charter within a closed-end structure to identify the best opportunities resulting from market inefficiencies and cyclical downturns

## FUNDS SIZED TO THE OPPORTUNITY SET

(\$ in billions)

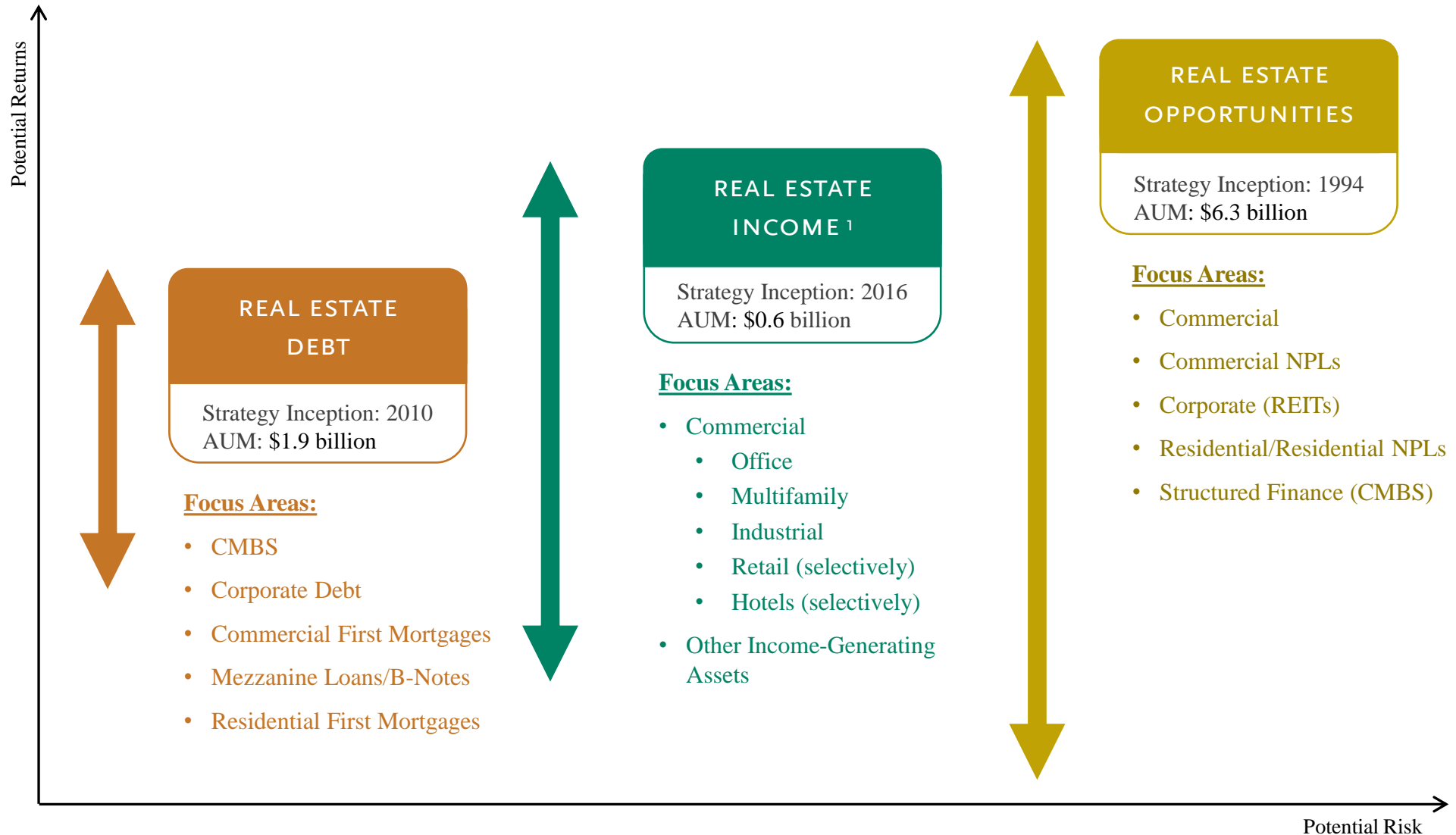


- Increase fund size ahead of potential market dislocation
- Scale back funds when opportunity set shrinks
- Dramatic downsizing of funds enables team to remain highly selective
- Largest funds are among our best performers
- Currently well positioned with \$11 billion of undrawn capital

<sup>1</sup> From December 31, 2010 through September 30, 2017. Represents High-water Mark NAV, Contributions, Profit & Loss, Gross Distributions and Current NAV of the Opportunities Funds (TCW Funds managed by Oaktree Principals; Opportunities Funds I, II, III, IV, IVb, V, VI, VII, VIIIb, VIII, Huntington; and all related trusts and separate accounts).

<sup>2</sup> Percentage represents the decrease in capital commitment from predecessor fund.

# Diverse Real Estate Platform



**Real Estate AUM of \$8.8 billion with a 25% CAGR since 2008**

As of September 30, 2017

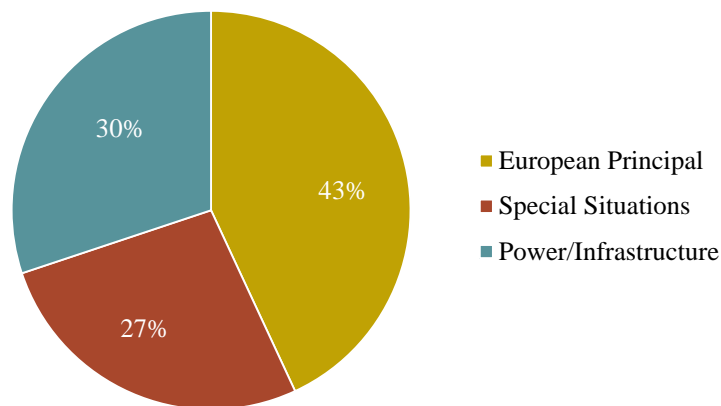
<sup>1</sup>Effective August 2017, the Real Estate Value-Add strategy was renamed Real Estate Income.



# Targeted Strategies in Control Investing

\$14 BILLION OF CONTROL INVESTING AUM

INDUSTRY / DEAL SPECIALIZATION



EUROPEAN PRINCIPAL

- Targets control investments in sectors and regions (primarily in Europe) where dislocation or distress results in an attractive purchase price or creation value
- Primary investing activities include:
  - **Special Situation PE:** Buying assets and companies at a discount from forced or distressed sellers or as a result of a broken auction
  - **Platforms:** Acquiring or creating a de novo operating company in industries that are “out-of-favor” or undergoing structural change
  - **Opportunistic Acquisitions:** Proprietary transactions, typically involving elements of complexity that enable the team to craft a creative investment solution

POWER/  
INFRASTRUCTURE

- **Power Opportunities:** Seeks to make controlling equity investments in successful companies that provide products and services used in the marketing, distribution, transmission, generation, trading or consumption of energy
- **Infrastructure:** Seeks to make controlling equity investments in core infrastructure assets exhibiting sustainable downside protection where experience and ability to add value to the assets provide significant upside potential
  - Primarily targets investments in the energy, transportation and environmental services sectors in North America

SPECIAL SITUATIONS<sup>1</sup>

- Focuses on special situations and distressed private equity investing in the U.S. and Australia
- Seeks to make investments that result in control of or significant influence in companies experiencing some element of distress, dislocation or dysfunction, and then actively manage those businesses
- Flexibility to invest across capital structures, including:
  - **Secondary purchases of debt** (distress-for-control)
  - **Direct investments** in distressed businesses
- Target companies with total enterprise values of less than \$2 billion

**Leveraging our focus on risk control and specialization for opportunities in middle market private equity**

As of September 30, 2017

<sup>1</sup>Effective November 2016, the Global Principal strategy was renamed Special Situations.

# Attractive Growth Opportunities

Product

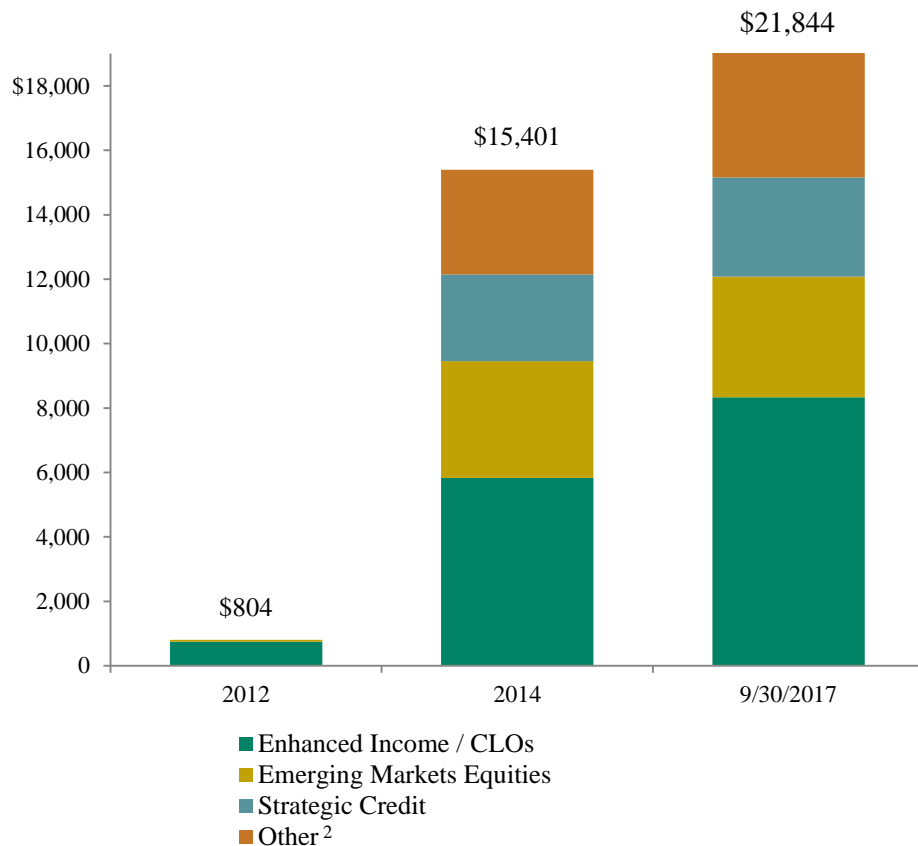
Distribution

Opportunities	Description	Examples
<b>Established Strategies</b>	<ul style="list-style-type: none"> <li>• Offering investors a diverse range of products across large addressable markets including distressed debt, control investing, real estate and credit strategies</li> <li>• Executing our existing closed-end fundraising pipeline and deploying that capital judiciously</li> </ul>	<ul style="list-style-type: none"> <li>• Real Estate Debt Fund II</li> <li>• Special Situations</li> <li>• Power Opportunities</li> <li>• Open-end and Evergreen vehicles such as Value Equities</li> </ul>
<b>Step-Out Products</b>	<ul style="list-style-type: none"> <li>• Addressing investors' demand for yield with risk under control in a low return world</li> </ul>	<ul style="list-style-type: none"> <li>• Global Credit Fund</li> <li>• Middle Market Direct Lending</li> <li>• Real Estate Debt / Real Estate Income</li> <li>• Structured Credit</li> <li>• Infrastructure – Transportation and Energy Funds</li> </ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>• Fast growing, inefficient asset classes</li> </ul>	<ul style="list-style-type: none"> <li>• EM Equities</li> <li>• EM Distressed Debt</li> <li>• EM Performing Debt</li> </ul>
<b>Existing Channels</b>	<ul style="list-style-type: none"> <li>• Substantial opportunities to penetrate existing channels by increasing cross-selling and enhancing geographic footprint</li> </ul>	<ul style="list-style-type: none"> <li>• 75% of investors by AUM invested in 2 or more strategies and 38% in 4 or more strategies</li> <li>• 34% of our AUM is managed for clients outside the U.S.</li> <li>• 58% of gross funds raised year-to-date have been from clients outside the U.S.</li> </ul>
<b>New Channels</b>	<ul style="list-style-type: none"> <li>• Accessing increasing global retail demand for alternatives               <ul style="list-style-type: none"> <li>– High net worth</li> <li>– Sub-advisory relationships</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• SICAV product offerings</li> <li>• Intermediary distribution for closed-end funds</li> <li>• Global Credit Fund</li> <li>• BDCs (NASDAQ: OCSL and NASDAQ: OCSI)</li> </ul>

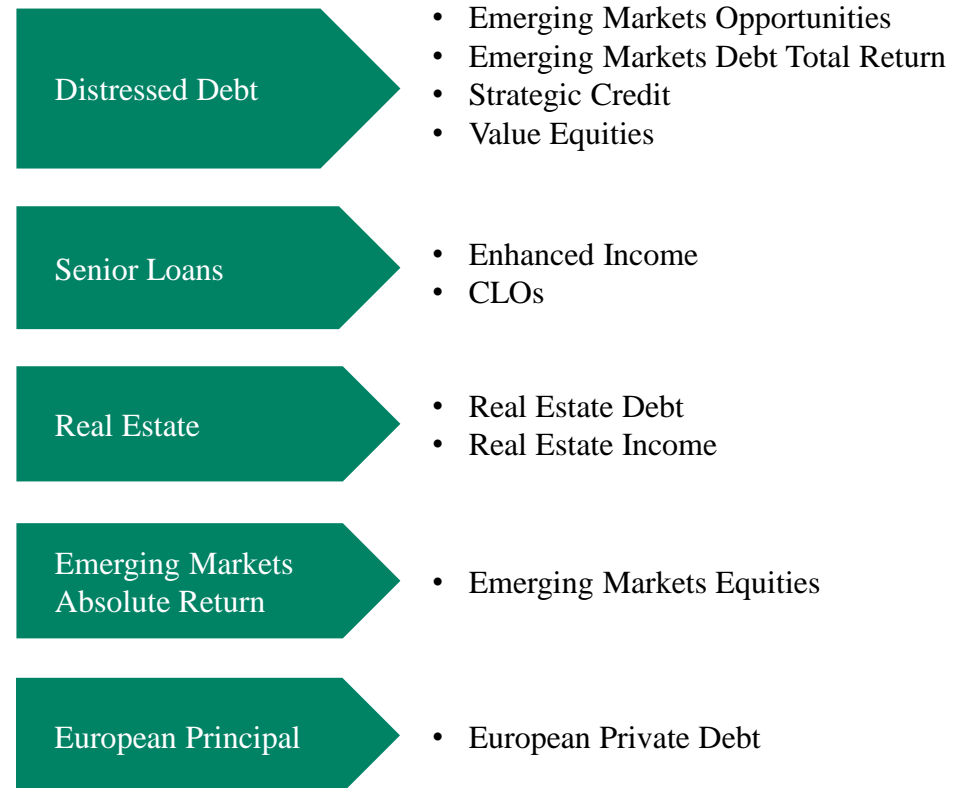
# Step-Out Strategies, A Natural Evolution

## \$22 BILLION OF AUM IN ADJACENT PRODUCTS <sup>1</sup>

As of December 31, unless other noted (\$ in millions)



## ORGANIC GROWTH A RESULT OF “STEP-OUT” STRATEGIES



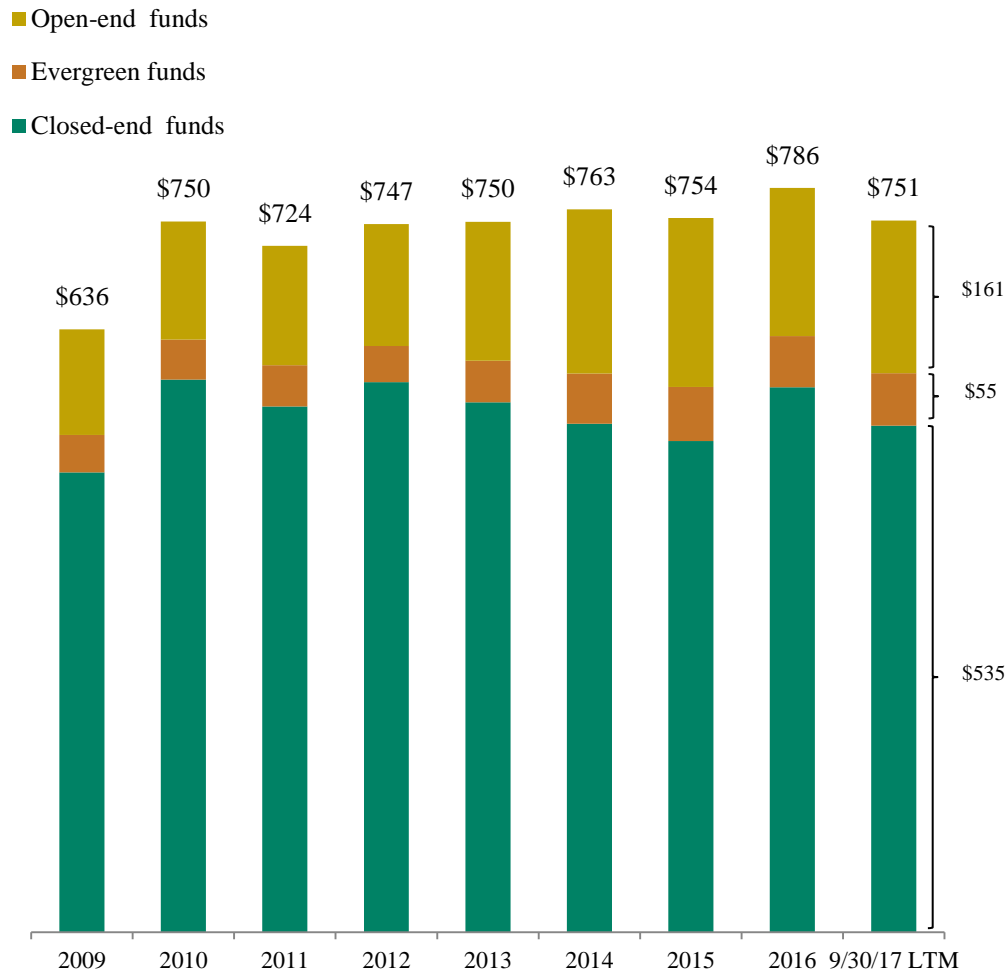
<sup>1</sup> Includes strategies launched since January 2011.

<sup>2</sup> "Other" includes Real Estate Debt, Emerging Markets Opportunities, Emerging Markets Debt Total Return, European High Yield Bonds and Senior Loans, Value Equities, Infrastructure, European Private Debt, Real Estate Income, and Global Credit Fund.

# Benefits of Locked-in Capital

## MANAGEMENT FEES

For the year ended December 31, unless otherwise noted (\$ in millions)



- **Management fees have remained stable despite:**

- Significant closed-end fund distributions (more than \$68 billion since January 2010 and more than \$10 billion over the LTM)
- \$12 billion of AUM not yet generating management fees (“shadow AUM”) at 9/30/17<sup>1</sup>

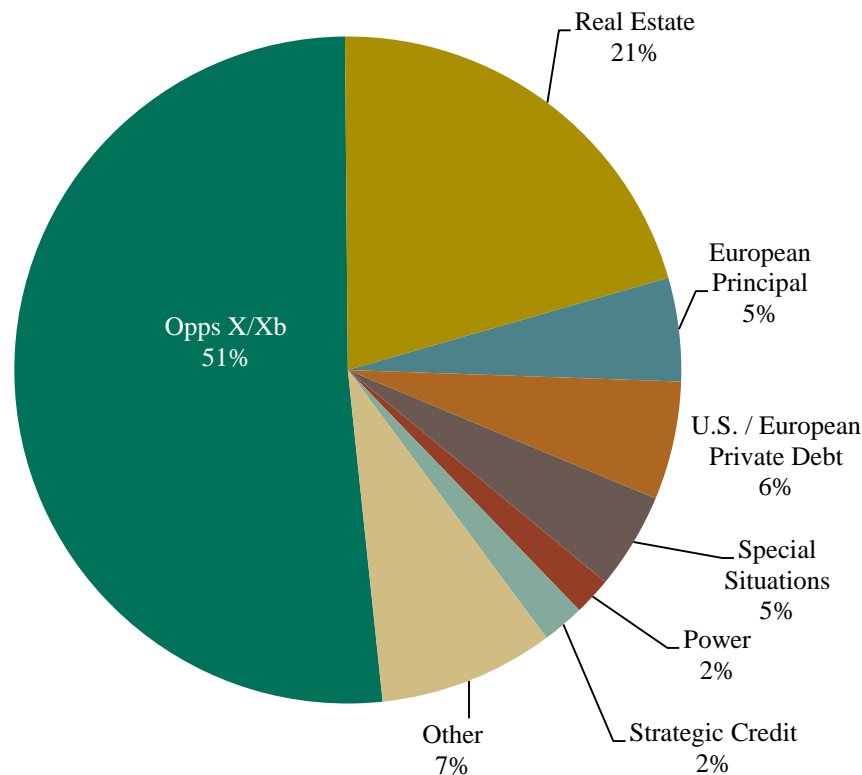
- **The stability of management fees can be attributed to:**

- Locked-in capital: 71% of management fees from closed-end funds over the last twelve months
- Diversified mix of pro- and counter-cyclical investment strategies

<sup>1</sup> This compares with \$21.2 billion of uncalled capital commitments as of 9/30/17. The difference primarily relates to funds that pay fees based on committed capital and have already begun their investment period, as these funds are excluded from shadow AUM but included in uncalled capital commitments to the extent they have not yet drawn 100% of committed capital. Shadow AUM also excludes general partner commitments.

# Well Positioned for Future Investment Opportunity

## NEAR-RECORD DRY POWDER OF \$21 BILLION



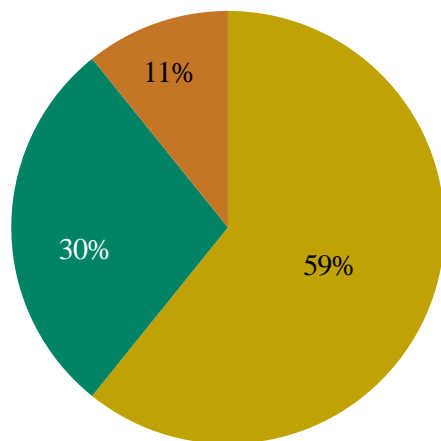
## CONTINUED STRENGTH IN FUNDRAISING

- Continued fundraising in established strategies, including Real Estate Debt Fund II (“REDF II”) – successor to the first Real Estate Debt Fund, a \$1 billion fund
- New product development in 2017 has included:
  - **Real Estate Income** – primarily focused on value add and some core plus investments
  - **Middle-Market Direct Lending** – step-out product from our U.S. Private Debt team
  - **Global Credit Fund** – multi-strategy product combining the full breadth of Oaktree’s more liquid credit strategies
  - **Infrastructure** – launched fundraising for two separate fund vehicles focused on transportation and energy
- \$12 billion of shadow AUM with a blended fee rate of 1.42% positions us well for future FRE growth

**While maintaining our focus on risk control and discipline in deploying dry powder**

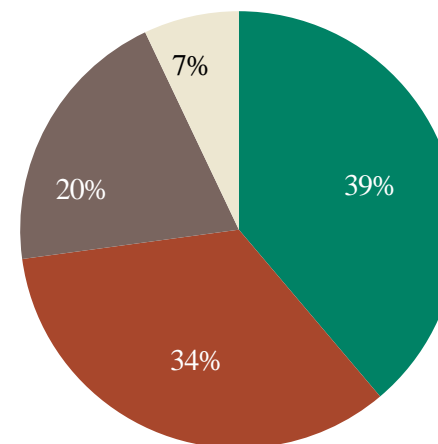
# Diverse Incentive Income Pipeline

TOTAL NET ACCRUED INCENTIVES \$900 MILLION



- Liquidating Funds (Not Yet Paying)
- Liquidating Funds (Paying)<sup>1</sup>
- Investing Funds

NET ACCRUED INCENTIVES ARE DIVERSIFIED AMONG OUR INVESTMENT STRATEGIES



- Distressed debt
- Control Investing<sup>2</sup>
- Real Estate
- Other<sup>2</sup>

**Net accrued incentives increased 4% sequentially to \$900 million (\$5.76 per unit<sup>3</sup>), driven by our funds' robust investment performance**

<sup>1</sup> Funds paying include all incentive-creating evergreen funds and closed-end funds that have reached the stage of their distribution waterfall where the drawn capital and preferred return have been distributed to investors and, therefore, incremental distributions thereafter generate incentive income for the Company. Funds paying does not reflect funds that may pay incentive income related to tax distributions only.

<sup>2</sup> Other primarily includes U.S. Private Debt, European Private Debt and evergreen funds or accounts in our Strategic Credit and Emerging Markets Opportunities strategies. As of 9/30/2017, net accrued incentives in evergreen funds were \$22 million. The majority of evergreen funds are entitled to recognize incentives on an annual basis in the fourth quarter.

<sup>3</sup> Per Operating Group unit (not per Class A unit). Net accrued incentives (fund level) is presented before income taxes.

# Distributable Earnings: Strength through Diversification

## FEE-RELATED EARNINGS

A significant contributor to distributable earnings over the LTM and the last 3 years (33% and 42% respectively, of total distributable earnings)

+

## DOUBLELINE

\$64 million of distributable earnings over the LTM as DoubleLine grew AUM 9% over this period

+

## INVESTMENT INCOME PROCEEDS FROM FUNDS

A steady source, with unrealized investment income proceeds on corporate investments of \$400 million, of which \$180 million was in closed-end funds in their liquidation period

+

## INCENTIVE INCOME

55 straight quarters of incentive income

**Our strong financial profile enables us to maintain a high payout ratio, while investing in growth and product development**

# Substantial Asset Value with Significant Upside

BOOK VALUE	\$12.67 <sup>1</sup>	Includes: <ul style="list-style-type: none"> <li>• \$1.6 billion Investments</li> <li>• \$0.3 billion Net Cash</li> </ul>
+	+	
NET ACCRUED INCENTIVES (FUND LEVEL)	\$5.76 <sup>1</sup>	<ul style="list-style-type: none"> <li>• ~89% in liquidating or evergreen funds</li> </ul>
TOTAL	\$18.43 <sup>1</sup> + DOUBLELINE	<ul style="list-style-type: none"> <li>• DoubleLine carrying value of \$21 million is significantly below FMV</li> </ul>

## The key tenets of our capital management strategy have been and remain:

- 1) Grow a strong, highly rated balance sheet with ample liquidity that allows us to fund growth for our current investment strategies along with strategic or opportunistic corporate development initiatives
- 2) Distribute to unitholders any cash that isn't needed to achieve #1, subject to our cash distribution policy
- 3) Consider opportunistic, not formulaic, purchases of our units, in the context of a long-term goal of enhancing the public float of our units

<sup>1</sup> Per Operating Group unit (not per Class A unit). Net accrued incentives (fund level) is presented before income taxes.

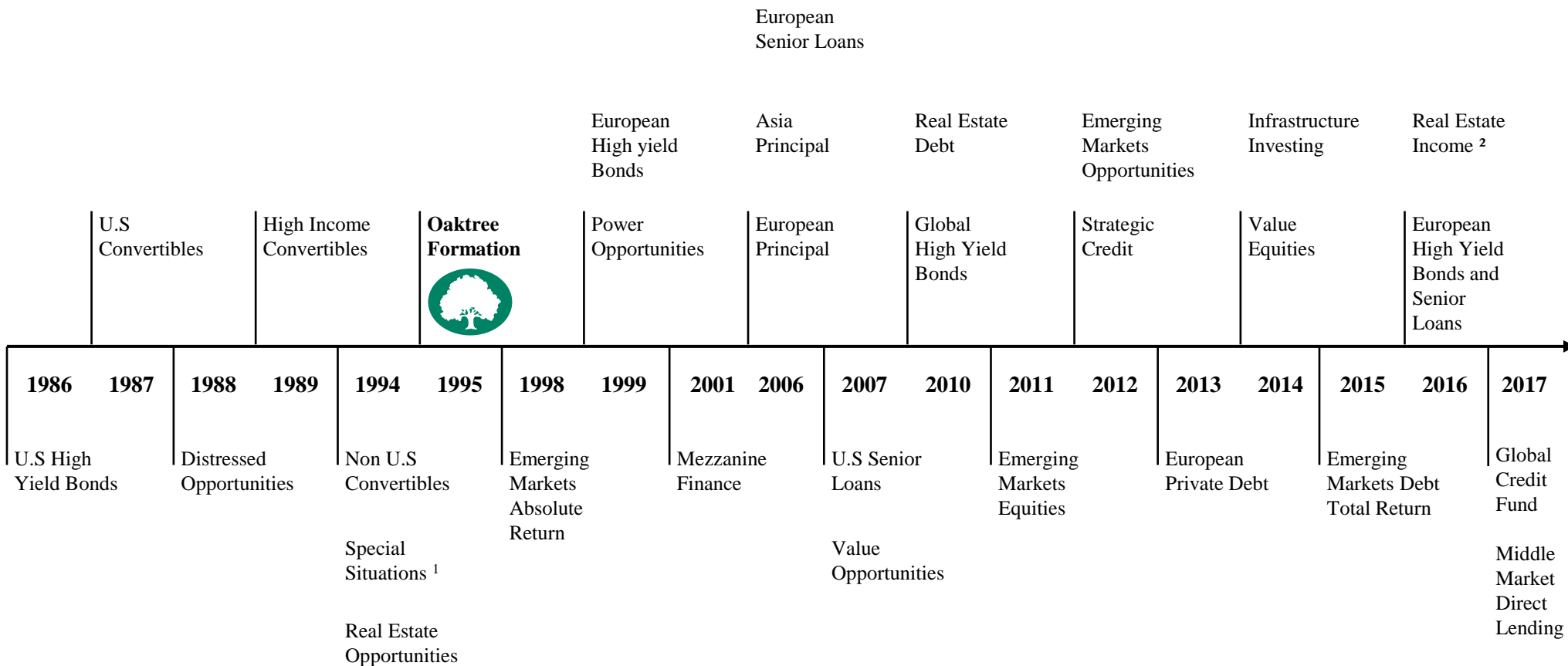


# Appendix



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# Strategy Initiation



<sup>1</sup> Effective November 2016, the Global Principal strategy was renamed Special Situations.

<sup>2</sup> Effective August 2017, the Real Estate Value-Add strategy was renamed Real Estate Income.

# Preponderance of Capital in Long-Term Closed-End Funds

	<b>% of AUM</b>	<b>% Management Fees<sup>1</sup></b>	<b>Lockup</b>	<b>Incentive Income</b>
<b>CLOSED-END</b> <ul style="list-style-type: none"> <li>• Distressed Debt</li> <li>• Control Investing</li> <li>• Real Estate</li> <li>• U.S. Private Debt</li> </ul>	58%	71%	10-11 year fund term	20% of LP profits after return of capital, subject to preferred return hurdle
<b>OPEN-END</b> <ul style="list-style-type: none"> <li>• High Yield Bonds</li> <li>• Convertible Securities</li> <li>• Senior Loans</li> <li>• Emerging Markets Equities</li> <li>• Multi-Strategy Credit</li> </ul>	36%	22%	mostly 30 days	
<b>EVERGREEN</b> <ul style="list-style-type: none"> <li>• Value Opportunities</li> <li>• Emerging Markets</li> <li>• Strategic Credit</li> <li>• Value Equities</li> </ul>	6%	7%	90 days to 3 years	Up to 20% of annual LP profits, subject to high-water mark or preferred return hurdle

Note: The above represents the general characteristics of the fund structures, but specific terms may vary depending on the strategy.

<sup>1</sup> For the last twelve months ended 9/30/17.

# Primary Earnings Measure: Adjusted Net Income

## Fee-related Earnings

- Equity-based Compensation
- Interest Expense, net
- + Other Income (Expense)

## Fee-related Earnings & Other

- + Investment Income from Funds
- + Doubleline & Other

## Investment Income

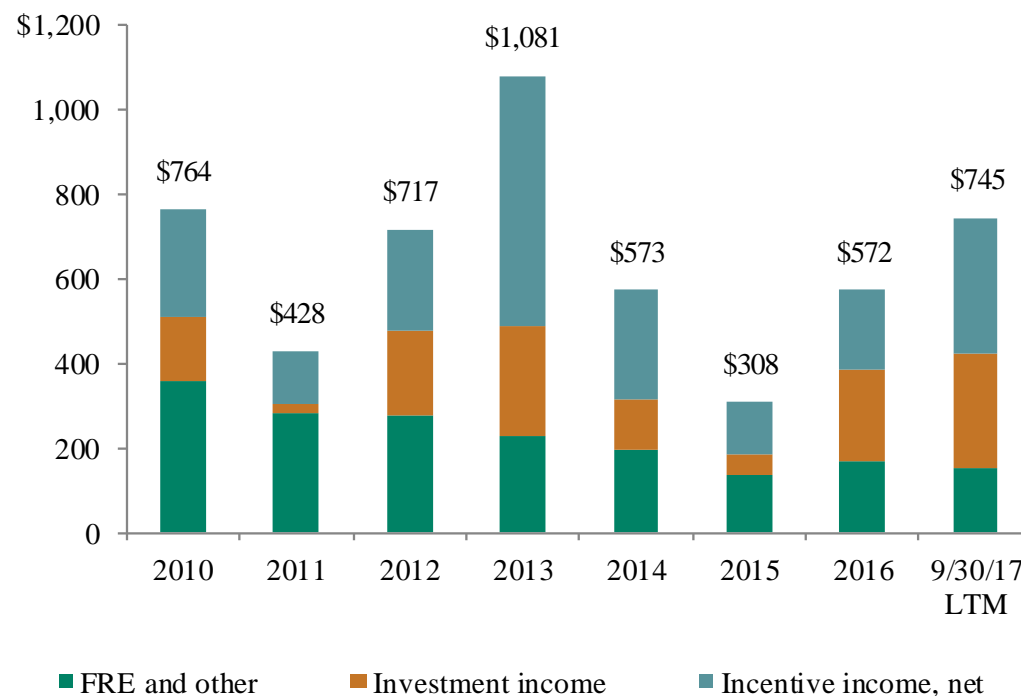
- + Incentive Income
- Incentive Income Comp

## Incentive Income, net

**ADJUSTED NET INCOME (ANI)**

## COMPONENTS OF ADJUSTED NET INCOME

*For the year ended December 31, unless otherwise noted (\$ in millions)*



# Economic Net Income

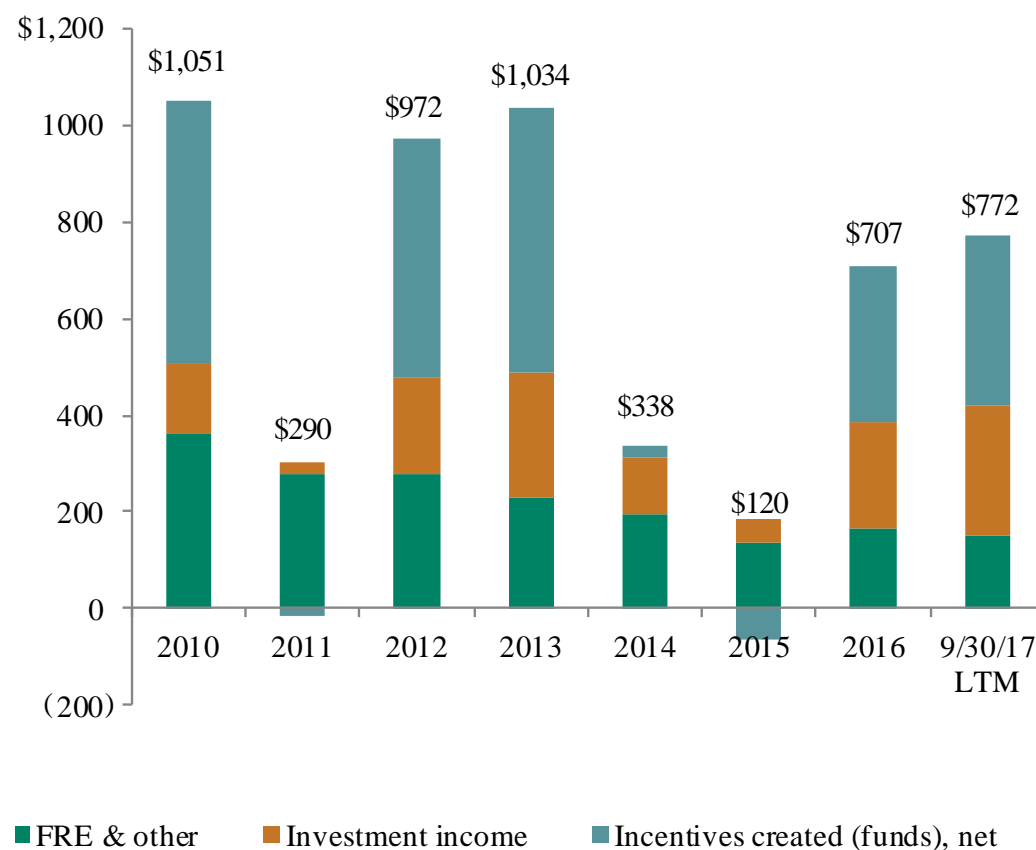
**ADJUSTED NET INCOME**

+ Accrued Incentives (Fund), net<sup>1</sup> (EOP)  
 - Accrued Incentives (Fund), net<sup>1</sup> (BOP)  
**Δ in Accrued Incentives (Fund), net**

**ECONOMIC NET INCOME (ENI)**

## COMPONENTS OF ECONOMIC NET INCOME

For the year ended December 31, unless otherwise noted (\$ in millions)



<sup>1</sup> Net of associated incentive income compensation expense.  
 Please see page 24 for a description of non-GAAP financial metrics.

# Distributable Earnings

## ADJUSTED NET INCOME

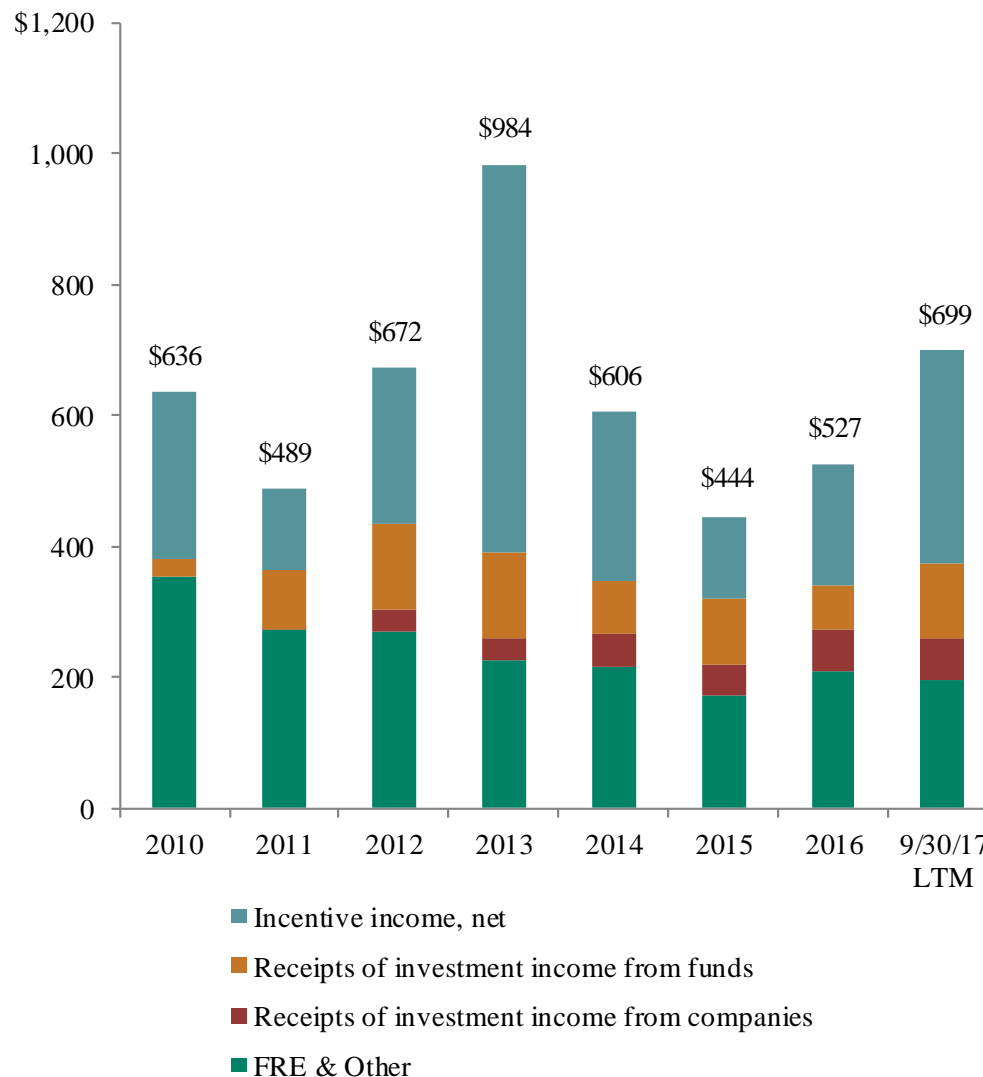
- Investment Income (MTM basis)
- + Receipts Of Investment Income – Funds
- + Receipts Of Investment Income – Companies

- + Equity-based Compensation
- Operating Group Income Taxes

## DISTRIBUTABLE EARNINGS (DE)

### COMPONENTS OF DISTRIBUTABLE EARNINGS

For the year ended December 31, unless otherwise noted (\$ in millions)



# Disclosures: Fund Table Provides Meaningful Insights

As of September 30, 2017

Investment Period		Total Committed Capital	% Invested	% Drawn	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive Income Recognized (Non-GAAP) <sup>1</sup>	Accrued Incentives (Fund Level)	Unreturned Drawn Capital Plus Accrued Preferred Return	IRR Since Inception		Multiple of Drawn Capital	
Start Date	End Date											Gross	Net		
(in millions)															
<b>Distressed Debt</b>															
Oaktree Opportunities Fund Xb, L.P.	TBD	—	8,872	0%	0%	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	n/a	n/a	n/a
Oaktree Opportunities Fund X, L.P.	Jan. 2016	Jan. 2019	3,603	76%	44%	629	80	2,135	3,404	—	122	1,648	46.5%	28.5%	1.5
Oaktree Opportunities Fund IX, L.P.	Jan. 2014	Jan. 2017	5,066	nm	100%	519	1,165	4,419	4,358	—	—	5,398	5.6%	3.0%	1.2
Oaktree Opportunities Fund VIIIb, L.P.	Aug. 2011	Aug. 2014	2,692	nm	100%	675	1,809	1,558	1,704	52	—	2,005	7.9%	5.0%	1.4
Special Account B	Nov. 2009	Nov. 2012	1,031	nm	100%	578	1,352	331	321	16	—	249	13.5%	11.1%	1.6
Oaktree Opportunities Fund VIII, L.P.	Oct. 2009	Oct. 2012	4,507	nm	100%	2,408	5,541	1,375	1,236	165	303	828	12.8%	8.9%	1.6
Special Account A	Nov. 2008	Oct. 2012	253	nm	100%	307	507	52	49	50	10	—	28.0%	22.7%	2.3
OCM Opportunities Fund VIIb, L.P.	May 2008	May 2011	10,940	nm	90%	8,972	17,744	1,072	866	1,534	209	—	21.9%	16.6%	2.0
OCM Opportunities Fund VII, L.P.	Mar. 2007	Mar. 2010	3,598	nm	100%	1,479	4,742	335	590	85	—	481	10.3%	7.5%	1.5
Legacy funds	Various	Various	12,495	nm	100%	10,456	22,912	39	—	1,555	9	—	23.6%	18.5%	1.9
													22.0 %	16.2 %	

Shows when management fee basis changes from committed capital to the lower of contributed capital or cost

Incentive income recognized in ANI to date

Incentive income that would be recognized if fund was liquidated at its current NAV

Reflects the amount of distributions required for fund to start recognizing incentive income<sup>1</sup>

% invested reflects how invested the fund is and, therefore, provides an indication of when we might raise a successor fund

Indicator for generating incentives (must cross net return threshold, generally 8%, before generating incentives)

Note: There are some exceptions to the statements above (e.g. some closed-end funds charge fees on contributed capital or NAV during the investment period).

<sup>1</sup> Additionally, tax distributions impact the timing of incentive income recognition.

# Description of Non-GAAP Metrics

**Adjusted net income** (“ANI”) is a measure of profitability 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.

**Economic net income** (“ENI”) is a non-GAAP performance measure that we use to evaluate the financial performance of our business by applying the “Method 2,” instead of the “Method 1,” revenue recognition approach to accounting for incentive income. ANI follows Method 1, except incentive income is recognized 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. The Method 2 approach followed by ENI recognizes incentive income as if the funds were liquidated at their reported values as of the date of the financial statements. ENI is computed by adjusting ANI for the change in accrued incentives (fund level), net of associated incentive income compensation expense, during the period.

**Distributable earnings** is a non-GAAP performance measure derived from our non-GAAP results 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 and distributable earnings revenues differ from ANI in that they exclude investment income or loss and include 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, in order 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.

**Fee-related earnings** (“FRE”) is a non-GAAP performance measure that we use to monitor the baseline earnings of our business. FRE is derived from our non-GAAP results and is comprised of management fees (“fee-related earnings revenues”) less operating expenses other than incentive income compensation expense and non-cash equity-based compensation expense. FRE 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. FRE is presented before income taxes.



# Reconciliations of Non-GAAP Metrics

For the year ended December 31, unless otherwise noted (\$ in thousands)

	2010	2011	2012	2013	2014	2015	2016	3Q2017 LTM
<b>Reconciliation of Net Income (Loss) Attributable to Oaktree Capital Group, LLC to ANI to DE:</b>								
Net income (loss) attributable to Oaktree Capital Group, LLC.....	\$ (49,455)	\$ (95,972)	\$ 107,810	\$ 221,998	\$ 126,283	\$ 71,349	\$ 194,705	\$ 277,363
Incentive income <sup>1</sup> .....	-	-	-	(64,460)	28,813	(19,002)	(1,407)	3,480
Incentive income compensation <sup>1</sup> .....	-	-	-	46,334	(10,677)	19,009	1,407	(3,480)
Investment income <sup>2</sup> .....	-	-	-	-	-	-	(21,814)	(26,711)
Equity-based compensation <sup>3</sup> .....	949,376	948,746	36,024	24,613	21,657	16,475	13,626	7,916
Foreign-currency hedging <sup>4</sup> .....	-	-	-	-	(2,003)	2,619	1,496	(10,301)
Acquisition-related items <sup>5</sup> .....	-	-	-	-	2,442	5,251	(924)	(629)
Income taxes <sup>6</sup> .....	26,399	21,088	30,858	26,232	18,536	17,549	42,519	44,401
Non-Operating Group other income <sup>7</sup> .....	-	-	(6,260)	-	-	-	-	-
Non-Operating Group expenses <sup>7</sup> .....	1,113	768	553	1,195	1,645	2,097	1,176	1,078
Non-controlling interests <sup>7</sup> .....	(163,555)	(446,246)	548,265	824,795	386,398	192,968	341,590	451,511
Adjusted Net Income.....	763,878	428,384	717,250	1,080,707	573,094	308,315	572,374	744,629
Investment income <sup>8</sup> .....	(149,449)	(23,763)	(202,392)	(258,654)	(117,662)	(48,253)	(221,377)	(271,091)
Receipts of investment income from funds <sup>9</sup> .....	28,891	88,693	129,621	128,896	81,438	101,296	66,390	116,017
Receipts of investment income from companies.....	-	1,496	33,838	35,664	49,546	48,067	63,700	64,330
Equity-based compensation <sup>10</sup> .....	-	-	-	3,828	19,738	37,906	50,098	52,877
Operating Group income taxes.....	(7,640)	(6,275)	(6,136)	(6,175)	(18)	(3,374)	(4,635)	(7,994)
Distributable Earnings.....	<u>\$ 635,680</u>	<u>\$ 488,535</u>	<u>\$ 672,181</u>	<u>\$ 984,266</u>	<u>\$ 606,136</u>	<u>\$ 443,957</u>	<u>\$ 526,550</u>	<u>\$ 698,767</u>

<sup>1</sup> 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.

<sup>2</sup> 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 adjusted net income are accounted for at amortized cost, subject to impairment.

<sup>3</sup> 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 because it does not affect our financial position and from distributable earnings because it is non-cash in nature and does not impact our ability to fund operations.

<sup>4</sup> 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.

<sup>5</sup> This adjustment adds back the effect of acquisition-related items associated with the amortization of intangibles and changes in the contingent consideration liability.

<sup>6</sup> Because adjusted net income and distributable earnings are pre-tax measures, this adjustment adds back the effect of income tax expense.

<sup>7</sup> Because adjusted net income and distributable 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.

<sup>8</sup> This adjustment eliminates investment income, which with respect to investments in funds is initially largely non-cash in nature and is thus not available to fund our operations.

<sup>9</sup> This adjustment characterizes the portion of the distributions received from funds 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.

<sup>10</sup> This adjustment eliminates the effect of equity-based compensation charges related to unit grants made after our initial public offering, which is excluded from distributable earnings because it is non-cash in nature and does not impact our ability to fund our operations.

# Reconciliations of Non-GAAP Metrics

For the year ended December 31, unless otherwise noted (\$ in thousands)

	2010	2011	2012	2013	2014	2015	2016	3Q2017 LTM
<b>Reconciliation of Fee-Related Earnings (FRE) to ANI to ENI:</b>								
FRE <sup>1</sup>	\$ 375,362	\$ 314,968	\$ 307,617	\$ 260,115	\$ 248,260	\$ 214,943	\$ 255,863	\$ 230,573
Incentive income.....	413,240	303,963	461,116	1,030,195	491,402	263,806	355,152	729,553
Incentive income compensation.....	(159,243)	(179,234)	(222,594)	(436,217)	(231,871)	(141,822)	(169,683)	(406,629)
Investment income.....	149,449	23,763	202,392	258,654	117,662	48,253	221,377	271,091
Equity-based compensation <sup>2</sup> .....	-	-	(318)	(3,828)	(19,738)	(37,906)	(50,098)	(52,877)
Interest expense, net of interest income.....	(26,173)	(33,867)	(31,730)	(28,621)	(30,190)	(35,032)	(31,845)	(27,182)
Other income (expense), net.....	11,243	(1,209)	767	409	(2,431)	(3,927)	(8,392)	99
ANI.....	763,878	428,384	717,250	1,080,707	573,094	308,315	572,374	744,628
Change in accrued incentives (fund level), net of associated incentive income compensation <sup>3</sup> .....	286,704	(138,872)	254,483	(46,968)	(235,303)	(188,383)	135,002	27,175
ENI.....	<u>\$ 1,050,582</u>	<u>\$ 289,512</u>	<u>\$ 971,733</u>	<u>\$ 1,033,739</u>	<u>\$ 337,791</u>	<u>\$ 119,932</u>	<u>\$ 707,376</u>	<u>\$ 771,803</u>
<b>Reconciliation of Consolidated Management fees to Non-GAAP Management fees:</b>								
Management fees - Consolidated.....	\$ 162,051	\$ 140,715	\$ 134,568	\$ 192,605	\$ 192,055	\$ 195,308	\$ 774,587	\$ 732,313
Adjustments <sup>4</sup> .....	587,980	583,606	612,872	557,296	570,768	558,497	11,086	18,785
Management fees - Non-GAAP.....	<u>\$ 750,031</u>	<u>\$ 724,321</u>	<u>\$ 747,440</u>	<u>\$ 749,901</u>	<u>\$ 762,823</u>	<u>\$ 753,805</u>	<u>\$ 785,673</u>	<u>\$ 751,098</u>

<sup>1</sup> Fee-related earnings is a component of adjusted net income and is comprised of management fees less operating expenses other than incentive income compensation expense and non-cash equity-based compensation expense related to unit grants made after our initial public offering.

<sup>2</sup> 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.

<sup>3</sup> The change in accrued incentives (fund level), net of associated incentive income compensation expense, represents the difference between (a) our recognition of net incentive income and (b) the incentive income generated by the funds during the period that would be due to us if the funds were liquidated at their reported values as of that date, net of associated incentive income compensation expense.

<sup>4</sup> This adjustment primarily represents the elimination of amounts attributable to the Company's consolidated funds, the reclassification of net gains or losses related to foreign-currency related hedging activities to general and administrative expense, and the elimination of non-controlling interests from adjusted revenues.

# Benchmark Disclosures

## BENCHMARK DETAIL

### *U.S. High Yield Bonds:*

Citigroup U.S. High Yield Cash-Pay Capped Index

### *European High Yield Bonds:*

BofA Merrill Lynch Global Non-Financial High Yield European  
Issuers excluding Russia 3% Constrained Index (USD Hedged)