

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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

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

Oaktree Capital Group, LLC

(Exact name of registrant as specified in its charter)

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A units representing limited liability company interests	OAK	New York Stock Exchange
6.625% Series A preferred units	OAK-A	New York Stock Exchange
6.550% Series B preferred units	OAK-B	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period 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 every Interactive Data File required to be submitted 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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, 2019, there were 75,842,110 Class A units and 83,789,066 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.

In addition to factors previously disclosed in Brookfield Asset Management Inc.’s (“Brookfield”) and Oaktree Capital Group, LLC’s (“OCG”) reports filed with securities regulators in Canada and the United States and those identified elsewhere in this quarterly report, the following factors, among others, could cause actual results to differ materially from forward-looking statements and information or historical performance: the occurrence of any event, change or other circumstances that could give rise to the right of one or both of Brookfield and OCG to terminate the definitive merger agreement between Brookfield and OCG; the outcome of any legal proceedings that may be instituted against Brookfield, OCG or their respective unitholders, shareholders or directors; the ability to obtain regulatory approvals and meet other closing conditions to the merger, including the risk that regulatory approvals required for the merger are not obtained or are obtained subject to conditions that are not anticipated or that are material and adverse to Brookfield’s or OCG’s business; a delay in closing the merger; business disruptions from the proposed merger that will harm Brookfield’s or OCG’s business, including current plans and operations; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the merger; certain restrictions during the pendency of the merger that may impact Brookfield’s or OCG’s ability to pursue certain business opportunities or strategic transactions; the ability of Brookfield or OCG to retain and hire key personnel; uncertainty as to the long-term value of the Class A shares of Brookfield following the merger; the continued availability of capital and financing following the merger; the business, economic and political conditions in the markets in which Brookfield and OCG operate; changes in OCG’s or Brookfield’s anticipated revenue and income, which are inherently volatile; changes in the value of OCG’s or Brookfield’s investments; the pace of OCG’s or Brookfield’s 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 OCG’s existing funds; the amount and timing of distributions on OCG’s preferred units and Class A units; changes in OCG’s operating or other expenses; the degree to which OCG or Brookfield encounters competition; and general political, economic and market conditions.

Any forward-looking statements and information speak only as of the date of this quarterly report or as of the date they were made, and except as required by law, neither Brookfield nor OCG undertakes any obligation to update forward-looking statements and information. For a more detailed discussion of these factors, also see the information under the captions “Cautionary Information Regarding Forward-Looking Statements” and “Risk Factors” in the consent solicitation statement/prospectus that forms part of the Registration Statement on Form F-4 (No. 333-231335) filed with the SEC by Brookfield in connection with the proposed merger, and the captions “Business Environment and Risks” in Brookfield’s most recent report on Form 40-F for the year ended December 31, 2018, and under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in OCG’s most recent report on Form 10-K for the year ended December 31, 2018, and in each case any material updates to these factors contained in any of Brookfield’s or OCG’s future filings.

As for the forward-looking statements and information that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements and information.

This quarterly report and its contents do not constitute and should not be construed as (a) a recommendation to buy, (b) an offer to buy or solicitation of an offer to buy, (c) an offer to sell or (d) advice in relation to, any securities of OCG or securities of any Oaktree investment fund.

Important Additional Information and Where to Find It

In connection with the proposed mergers, Brookfield filed with the SEC a Registration Statement on Form F-4 (No. 333-231335) that includes a consent solicitation statement of OCG and a prospectus of Brookfield, as well as other relevant documents regarding the proposed transactions. The Registration Statement, as amended, was declared effective by the SEC on June 20, 2019. OCG commenced mailing the definitive consent solicitation statement/prospectus to OCG common unitholders on or about June 24, 2019. This quarterly report does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

INVESTORS ARE URGED TO READ THE REGISTRATION STATEMENT AND THE CONSENT SOLICITATION STATEMENT/PROSPECTUS REGARDING THE MERGERS AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.

A free copy of the consent solicitation statement/prospectus, as well as other filings containing information about OCG and Brookfield, may be obtained at the SEC's Internet site (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from OCG by accessing OCG's website at ir.oaktreecapital.com or from Brookfield by accessing Brookfield's website at bam.Brookfield.com/reports-and-filings. Copies of the consent solicitation statement/prospectus can also be obtained, free of charge, by directing a request to Oaktree Investor Relations at Unitholders – Investor Relations, Oaktree Capital Management, L.P., 333 South Grand Ave., 28th Floor, Los Angeles, CA 90071, by calling (213) 830-6483 or by sending an e-mail to investorrelations@oaktreecapital.com or to Brookfield Investor Relations by calling (416) 359-8647 or by sending an e-mail to linda.northwood@brookfield.com.

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 our pro-rata portion of AUM managed by DoubleLine (as defined below) in which we hold a minority ownership interest. For our collateralized loan obligation vehicles (“CLOs”), AUM represents the aggregate par value of collateral assets and principal cash, for our publicly-traded BDCs, gross assets (including assets acquired with leverage), net of cash, and for DoubleLine funds, NAV. 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 generally 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.”

“Class A units” refer to the common units of OCG designated as Class A units.

“common units” or “common unitholders” refer to the Class A common units of OCG or Class A common unitholders, respectively, unless otherwise specified.

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

“DoubleLine” refers to DoubleLine Capital LP and its affiliates.

“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.

“preferred units” or “preferred unitholders” refer to the Series A and Series B preferred units of OCG or Series A and Series B preferred unitholders, respectively, unless otherwise specified.

“Relevant Benchmark” refers, with respect to:

- our U.S. High Yield Bond strategy, to the FTSE US High-Yield Cash-Pay Capped Index;
- our Global High Yield Bond strategy, to an Oaktree custom global high yield index that represents 60% ICE BofAML High Yield Master II Constrained Index and 40% ICE BofAML Global Non-Financial High Yield European Issuers 3% Constrained, ex-Russia Index – USD Hedged from inception through December 31, 2012, and the ICE BofAML Non-Financial Developed Markets High Yield Constrained Index – USD Hedged thereafter;
- our European High Yield Bond strategy, to the ICE BofAML 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 ICE BofAML 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 FTSE US 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, 2019	December 31, 2018
Assets		
Cash and cash-equivalents	\$ 699,429	\$ 460,937
U.S. Treasury and other securities	387,585	546,531
Corporate investments (includes \$73,080 and \$74,899 measured at fair value as of June 30, 2019 and December 31, 2018, respectively)	1,154,453	1,209,764
Due from affiliates	134,147	442,912
Deferred tax assets	229,330	229,100
Operating lease assets	105,767	—
Other assets	526,550	533,044
<i>Assets of consolidated funds:</i>		
Cash and cash-equivalents	403,071	370,790
Investments, at fair value	6,939,504	6,531,385
Dividends and interest receivable	29,315	26,792
Due from brokers	123	11,599
Receivable for securities sold	64,205	65,884
Other assets	5,542	3,440
Total assets	<u>\$ 10,679,021</u>	<u>\$ 10,432,178</u>
Liabilities and Unitholders' Capital		
Liabilities:		
Accrued compensation expense	\$ 283,512	\$ 437,966
Accounts payable, accrued expenses and other liabilities	112,837	128,729
Due to affiliates	188,991	188,367
Debt obligations	746,210	745,945
Operating lease liabilities	135,093	—
<i>Liabilities of consolidated funds:</i>		
Accounts payable, accrued expenses and other liabilities	29,847	31,643
Payables for securities purchased	443,166	450,172
Securities sold short, at fair value	—	2,609
Distributions payable	676	4,885
Borrowings under credit facilities	909,681	864,529
Debt obligations of CLOs	4,312,023	4,127,994
Total liabilities	<u>7,162,036</u>	<u>6,982,839</u>
Commitments and contingencies (Note 17)		
Non-controlling redeemable interests in consolidated funds	<u>1,093,322</u>	<u>961,622</u>
Unitholders' capital:		
Series A preferred units, 7,200,000 units issued and outstanding as of June 30, 2019 and December 31, 2018	173,669	173,669
Series B preferred units, 9,400,000 units issued and outstanding as of June 30, 2019 and December 31, 2018	226,915	226,915
Class A units, no par value, unlimited units authorized, 75,649,487 and 71,661,623 units issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	—	—
Class B units, no par value, unlimited units authorized, 84,001,461 and 85,471,937 units issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	—	—
Paid-in capital	937,880	893,043
Retained earnings	60,056	100,683
Accumulated other comprehensive income	2,404	1,053
Unitholders' capital attributable to Oaktree Capital Group, LLC	<u>1,400,924</u>	<u>1,395,363</u>
Non-controlling interests in consolidated subsidiaries	<u>1,022,739</u>	<u>1,092,354</u>
Total unitholders' capital	<u>2,423,663</u>	<u>2,487,717</u>
Total liabilities and unitholders' capital	<u>\$ 10,679,021</u>	<u>\$ 10,432,178</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,	
	2019	2018	2019	2018
Revenues:				
Management fees	\$ 175,103	\$ 178,096	\$ 345,037	\$ 363,511
Incentive income	138,380	35,187	234,861	187,093
Total revenues	313,483	213,283	579,898	550,604
Expenses:				
Compensation and benefits	(109,115)	(105,073)	(223,638)	(213,827)
Equity-based compensation	(22,648)	(15,246)	(36,977)	(29,867)
Incentive income compensation	(73,122)	(15,218)	(125,422)	(100,033)
Total compensation and benefits expense	(204,885)	(135,537)	(386,037)	(343,727)
General and administrative	(50,138)	(39,444)	(97,741)	(72,408)
Depreciation and amortization	(6,566)	(6,551)	(13,130)	(12,953)
Consolidated fund expenses	(4,299)	(3,074)	(6,454)	(6,554)
Total expenses	(265,888)	(184,606)	(503,362)	(435,642)
Other income (loss):				
Interest expense	(43,995)	(35,469)	(89,760)	(76,048)
Interest and dividend income	84,648	67,980	176,900	130,599
Net realized gain (loss) on consolidated funds' investments	447	(17,296)	(5,372)	(2,697)
Net change in unrealized appreciation (depreciation) on consolidated funds' investments	1,814	(31,105)	58,931	(45,491)
Investment income	32,835	56,923	94,985	91,486
Other income, net	36	914	58	1,611
Total other income	75,785	41,947	235,742	99,460
Income before income taxes	123,380	70,624	312,278	214,422
Income taxes	(1,852)	(4,867)	(6,350)	(11,264)
Net income	121,528	65,757	305,928	203,158
Less:				
Net (income) loss attributable to non-controlling interests in consolidated funds	(22,240)	7,360	(86,442)	(3,365)
Net income attributable to non-controlling interests in consolidated subsidiaries	(50,015)	(41,996)	(116,130)	(115,940)
Net income attributable to Oaktree Capital Group, LLC	49,273	31,121	103,356	83,853
Net income attributable to preferred unitholders	(6,829)	—	(13,658)	—
Net income attributable to Oaktree Capital Group, LLC Class A unitholders	\$ 42,444	\$ 31,121	\$ 89,698	\$ 83,853
Distributions declared per Class A unit	\$ 1.05	\$ 0.96	\$ 1.80	\$ 1.72
Net income per Class A unit (basic and diluted):				
Net income per Class A unit	\$ 0.57	\$ 0.44	\$ 1.23	\$ 1.21
Weighted average number of Class A units outstanding	74,340	71,177	72,994	69,556

Please see accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 121,528	\$ 65,757	\$ 305,928	\$ 203,158
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(339)	129	3,369	(90)
Other comprehensive income (loss), net of tax	(339)	129	3,369	(90)
Total comprehensive income	121,189	65,886	309,297	203,068
Less:				
Comprehensive (income) loss attributable to non-controlling interests in consolidated funds	(22,240)	7,360	(86,442)	(3,365)
Comprehensive income attributable to non-controlling interests in consolidated subsidiaries	(50,036)	(42,062)	(118,148)	(115,873)
Comprehensive income attributable to OCG	48,913	31,184	104,707	83,830
Comprehensive income attributable to preferred unitholders ..	(6,829)	—	(13,658)	—
Comprehensive income attributable to OCG Class A unitholders ..	<u>\$ 42,084</u>	<u>\$ 31,184</u>	<u>\$ 91,049</u>	<u>\$ 83,830</u>

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,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 305,928	\$ 203,158
Adjustments to reconcile net income to net cash used in operating activities:		
Adoption of revenue recognition standard	—	48,709
Investment income	(94,985)	(91,486)
Depreciation and amortization	13,130	12,953
Equity-based compensation	36,977	29,867
Net realized and unrealized (gain) loss from consolidated funds' investments	(53,559)	48,188
Amortization (accretion) of original issue and market discount of consolidated funds' investments, net	(4,298)	(2,020)
Income distributions from corporate investments in funds and companies	102,763	126,810
Other non-cash items	2,630	777
Cash flows due to changes in operating assets and liabilities:		
Increase in other assets	(1,413)	(1,129)
Decrease in net due from affiliates	309,389	74,328
Decrease in accrued compensation expense	(157,426)	(103,355)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	10,576	(5,096)
<i>Cash flows due to changes in operating assets and liabilities of consolidated funds:</i>		
(Increase) decrease in dividends and interest receivable	(2,343)	528
(Increase) decrease in due from brokers	11,476	(2,745)
(Increase) decrease in receivables for securities sold	3,246	20,183
Increase in other assets	(1,804)	(151)
Increase in accounts payable, accrued expenses and other liabilities	13,668	5,191
Increase (decrease) in payables for securities purchased	45,700	(20,588)
Purchases of securities	(2,796,529)	(2,474,617)
Proceeds from maturities and sales of securities	1,270,813	2,101,594
Net cash used in operating activities	<u>(986,061)</u>	<u>(28,901)</u>
Cash flows from investing activities:		
Purchases of U.S. Treasury and other securities	(538,095)	(338,039)
Proceeds from maturities and sales of U.S. Treasury and other securities	696,991	242,074
Corporate investments in funds and companies	(98,707)	(145,041)
Distributions and proceeds from corporate investments in funds and companies	150,782	216,456
Purchases of fixed assets	(4,304)	(1,441)
Net cash provided by (used in) investing activities	<u>206,667</u>	<u>(25,991)</u>

(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,	
	2019	2018
Cash flows from financing activities:		
Net proceeds from issuance of Class A units	\$ —	\$ 219,750
Purchase of OCGH units	—	(219,525)
Repurchase and cancellation of units	(9,952)	(10,833)
Distributions to Class A unitholders	(130,325)	(121,757)
Distributions to preferred unitholders	(13,658)	—
Distributions to OCGH unitholders	(164,624)	(165,264)
Distributions to non-controlling interests	(2,355)	(2,555)
Net proceeds from issuance of preferred units	—	173,669
Payment of debt issuance costs	—	(2,235)
<i>Cash flows from financing activities of consolidated funds:</i>		
Contributions from non-controlling interests	141,057	107,177
Distributions to non-controlling interests	(96,987)	(197,806)
Proceeds from debt obligations issued by CLOs	1,867,459	633,055
Payment of debt issuance costs	(1,910)	(1,771)
Repayment on debt obligations issued by CLOs	(500,761)	(456,963)
Borrowings on credit facilities	416,838	—
Repayments on credit facilities	(372,000)	—
Net cash provided by (used in) financing activities	1,132,782	(45,058)
Effect of exchange rate changes on cash	(760)	(1,045)
Net increase (decrease) in cash and cash-equivalents	352,628	(100,995)
Deconsolidation of funds	(81,855)	(12,315)
Cash and cash-equivalents, beginning balance	831,727	959,465
Cash and cash-equivalents, ending balance	\$ 1,102,500	\$ 846,155
 <u>Reconciliation of cash and cash-equivalents</u>		
Cash and cash-equivalents – Oaktree	\$ 699,429	\$ 559,425
Cash and cash-equivalents – Consolidated Funds	403,071	286,730
Total cash and cash-equivalents	\$ 1,102,500	\$ 846,155

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	Series A Preferred Units	Series B Preferred Units	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests in Consolidated Subsidiaries	Total Unitholders' Capital
Unitholders' capital as of March 31, 2019	72,928	86,419	\$ 173,669	\$ 226,915	\$ 897,782	\$ 94,199	\$ 2,764	\$ 1,089,459	\$ 2,484,788
Activity for the three months ended:									
Issuance of units	2,729	418	—	—	—	—	—	—	—
Cancellation of units associated with forfeitures	(7)	(119)	—	—	—	—	—	—	—
Cancellation of units	—	(2,717)	—	—	—	—	—	—	—
Repurchase and cancellation of units	(1)	—	—	—	(27)	—	—	—	(27)
Equity reallocation between controlling and non- controlling interests	—	—	—	—	30,440	—	—	(30,440)	—
Capital increase related to equity-based compensation	—	—	—	—	9,685	—	—	11,108	20,793
Distributions declared	—	—	(2,981)	(3,848)	—	(76,587)	—	(97,424)	(180,840)
Net income	—	—	2,981	3,848	—	42,444	—	50,015	99,288
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(360)	21	(339)
Unitholders' capital as of June 30, 2019	<u>75,649</u>	<u>84,001</u>	<u>\$ 173,669</u>	<u>\$ 226,915</u>	<u>\$ 937,880</u>	<u>\$ 60,056</u>	<u>\$ 2,404</u>	<u>\$ 1,022,739</u>	<u>\$ 2,423,663</u>

Oaktree Capital Group, LLC									
	Class A Units	Class B Units	Series A Preferred Units	Series B Preferred Units	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests in Consolidated Subsidiaries	Total Unitholders' Capital
Unitholders' capital as of December 31, 2018	71,662	85,472	\$ 173,669	\$ 226,915	\$ 893,043	\$ 100,683	\$ 1,053	\$ 1,092,354	\$ 2,487,717
Activity for the six months ended:									
Issuance of units	4,184	1,438	—	—	—	—	—	—	—
Cancellation of units associated with forfeitures	(27)	(119)	—	—	—	—	—	—	—
Cancellation of units	—	(2,717)	—	—	—	—	—	—	—
Repurchase and cancellation of units	(170)	(73)	—	—	(7,437)	—	—	(2,515)	(9,952)
Equity reallocation between controlling and non- controlling interests	—	—	—	—	36,565	—	—	(36,565)	—
Capital increase related to equity-based compensation	—	—	—	—	15,709	—	—	18,296	34,005
Distributions declared	—	—	(5,962)	(7,696)	—	(130,325)	—	(166,979)	(310,962)
Net income	—	—	5,962	7,696	—	89,698	—	116,130	219,486
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	1,351	2,018	3,369
Unitholders' capital as of June 30, 2019	<u>75,649</u>	<u>84,001</u>	<u>\$ 173,669</u>	<u>\$ 226,915</u>	<u>\$ 937,880</u>	<u>\$ 60,056</u>	<u>\$ 2,404</u>	<u>\$ 1,022,739</u>	<u>\$ 2,423,663</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	Series A Preferred Units	Series B Preferred 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 March 31, 2018	71,172	86,007	\$ —	\$ —	\$ 866,576	\$ 99,789	\$ 357	\$ 1,079,586	\$ 10,768	\$ 2,057,076
Activity for the three months ended:										
Issuance of units	7	—	173,669	—	—	—	—	—	—	173,669
Cancellation of units associated with forfeitures	(4)	—	—	—	—	—	—	—	—	—
Repurchase and cancellation of units	—	—	—	—	(83)	—	—	(297)	—	(380)
Purchase of non-controlling interests in subsidiary	—	—	—	—	(1,320)	—	—	(1,596)	—	(2,916)
Equity reallocation between controlling and non- controlling interests	—	—	—	—	(75)	—	—	75	—	—
Capital increase related to equity-based compensation	—	—	—	—	6,678	—	—	8,069	—	14,747
Distributions declared	—	—	—	—	—	(68,331)	—	(92,646)	(3,033)	(164,010)
Net income	—	—	—	—	—	31,121	—	41,996	(1,016)	72,101
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	63	66	—	129
Unitholders' capital as of June 30, 2018	<u>71,175</u>	<u>86,007</u>	<u>\$ 173,669</u>	<u>\$ —</u>	<u>\$ 871,776</u>	<u>\$ 62,579</u>	<u>\$ 420</u>	<u>\$ 1,035,253</u>	<u>\$ 6,719</u>	<u>\$ 2,150,416</u>

Oaktree Capital Group, LLC										
	Class A Units	Class B Units	Series A Preferred Units	Series B Preferred 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, 2017	65,310	90,976	\$ —	\$ —	\$ 788,413	\$ 80,128	\$ 443	\$ 1,121,237	\$ 30,396	\$ 2,020,617
Activity for the six months ended:										
Cumulative-effect adjustment from adoption of accounting guidance	—	—	—	—	—	20,355	—	28,354	—	48,709
Issuance of units	6,150	114	173,669	—	219,750	—	—	—	—	393,419
Cancellation of units associated with forfeitures	(85)	—	—	—	—	—	—	—	—	—
Repurchase and cancellation of units	(200)	(5,083)	—	—	(227,507)	—	—	(2,851)	—	(230,358)
Purchase of non-controlling interests in subsidiary	—	—	—	—	(1,320)	—	—	(1,596)	—	(2,916)
Deferred tax effect resulting from the purchase of OCGH units	—	—	—	—	6,051	—	—	—	—	6,051
Equity reallocation between controlling and non- controlling interests	—	—	—	—	73,755	—	—	(73,755)	—	—
Capital increase related to equity-based compensation	—	—	—	—	12,634	—	—	15,810	—	28,444
Distributions declared	—	—	—	—	—	(121,757)	—	(167,819)	(22,833)	(312,409)
Net income	—	—	—	—	—	83,853	—	115,940	(844)	198,949
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(23)	(67)	—	(90)
Unitholders' capital as of June 30, 2018	<u>71,175</u>	<u>86,007</u>	<u>\$ 173,669</u>	<u>\$ —</u>	<u>\$ 871,776</u>	<u>\$ 62,579</u>	<u>\$ 420</u>	<u>\$ 1,035,253</u>	<u>\$ 6,719</u>	<u>\$ 2,150,416</u>

Please see accompanying notes to condensed consolidated financial statements.

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2019
(\$ in thousands, except where noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Oaktree Capital Group, LLC (“OCG”, 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 credit, private equity, real assets and listed equities. Funds managed by Oaktree (the “Oaktree funds”) include commingled funds, separate accounts, collateralized loan obligation vehicles (“CLOs”) and publicly-traded business development companies (“BDCs”). 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 and its preferred 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, 2018 included in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on February 22, 2019.

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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Agreement and Plan of Merger

On March 13, 2019, Oaktree and Brookfield Asset Management Inc. (“Brookfield”) entered into a definitive merger agreement pursuant to which Brookfield will acquire approximately 62% of Oaktree’s business in a stock and cash transaction. Following the transaction, the remaining 38% of the business will continue to be owned by OCGH, whose unitholders consist primarily of Oaktree’s founders and certain other members of management and current and former employees. As part of the transaction, Brookfield will acquire all outstanding OCG Class A units for, at the election of OCG Class A unitholders, either \$49.00 in cash or 1.0770 Class A shares of Brookfield per OCG Class A unit (subject to pro-ration to ensure that no more than fifty percent (50%) of the aggregate merger consideration is paid in the form of cash or stock), in each case, without interest and subject to any applicable withholding taxes. In addition, the founders, senior management, and current and former employee-unitholders of OCGH will sell to Brookfield 20% of their OCGH units for the same consideration as the OCG Class A unitholders. On June 25, 2019, OCG received written consent in favor of the adoption of the merger agreement from OCGH, constituting the requisite approval of the transaction by OCG unitholders. The transaction is anticipated to close during the third quarter of 2019, subject to customary closing conditions including certain regulatory approvals.

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 (a) 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 (b) 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 of those funds due to the fact that its fee arrangements are considered at-market and thus 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 4 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 the Company is required to consolidate. When funds or CLOs are consolidated, the Company reflects the assets, liabilities, revenues,

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
June 30, 2019
(\$ in thousands, except where noted)

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 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 13 for more information.

Leases

The Company determines whether an arrangement contains a lease at inception. A lease is a contract that provides the right to control an identified asset for a period of time in exchange for consideration. For identified leases, the Company determines whether it should be classified as an operating or finance lease. Operating leases are recorded in the statements of financial condition as separate line items: operating lease right-of-use assets ("ROU assets") and operating lease liabilities. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at the commencement date of the lease and measured based on the present value of lease payments over the lease term. The ROU asset also includes deferred rent liabilities and lease incentives. The Company's lease arrangements generally do not provide an

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Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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implicit rate. As a result, in such situations the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company may also include options to extend or terminate the lease when it is reasonably certain that it will exercise that option in the measurement of its ROU assets and liabilities. Lease expense for operating leases is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. Please see note 11 for more information.

Revenue Recognition

The Company earns management fees and incentive income from the investment advisory services it provides to its customers. Revenue is recognized when control of the promised services is transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services. The Company typically enters into contracts with investment funds to provide investment management and administrative services. These services are generally capable of being distinct and each is accounted for as separate performance obligations comprised of distinct service periods because the services are performed over time. The Company determined that for accounting purposes the investment funds are generally considered to be the customers with respect to commingled funds, while the individual investors are the customers with respect to separate account and fund-of-one vehicles. The Company receives management fees and/or incentive income with respect to its investment management services, and it is reimbursed by the funds for expenses incurred or paid on behalf of the funds with respect to its investment advisory services and its administrative services. The Company evaluates whether it is the principal (i.e., report as management fees on a gross basis) or agent (i.e., report as management fees on a net basis) with respect to each performance obligation and associated reimbursement arrangements. The Company has elected to apply the variable consideration exemption for its fee arrangements with its customers. Please see note 3 for more information on revenues.

Management Fees

Management fees are recognized over the period in which the investment management services are performed because customers simultaneously consume and receive benefits that are satisfied over time. The contractual terms of management fees generally vary by fund structure. For most closed-end funds, the management fee rate is applied against committed capital during the fund's investment period and the lesser of total funded capital or cost basis of assets in the liquidation period. Certain closed-end funds pay management fees during the investment period based on drawn capital or cost basis. Additionally, for closed-end funds that pay management fees based on committed capital, the Company may elect to delay the start of the fund's investment period and thus its full management fees, in which case it earns management fees based on drawn capital, and in certain cases outstanding borrowings under a fund-level credit facility made in lieu of drawing capital, until the Company elects to start the fund's investment period. The Company's right to receive management fees typically ends after 10 or 11 years from either the initial closing date or the start of the investment period, even if assets remain in the fund. In the case of CLOs, the management fee is based on the aggregate par value of collateral assets and principal cash, as defined in the applicable CLO indentures, and a portion of the management fees is dependent on the sufficiency of the particular vehicle's cash flow. For open-end and evergreen funds, the management fee is generally based on the NAV of the fund. For the publicly-traded BDCs, the management fee is based on gross assets (including assets acquired with leverage), net of cash. In the case of certain open-end fund accounts, the Company has the potential to earn performance-based fees, typically in reference to a relevant benchmark index or hurdle rate, which are classified as management fees. The Company also earns quarterly incentive fees on the investment income from certain evergreen funds, such as the publicly-traded BDCs and other fund accounts, which are generally recurring in nature and reflected as management fees.

The ultimate amount of management fees that will be earned over the life of the contract is subject to a large number and broad range of possible outcomes due to market volatility and other factors outside of the Company's control. As a result, the amount of revenue earned in any given period is generally determined at the end of each reporting period and relates to services performed during that period.

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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Incentive Income

Incentive income generally represents 20% of each closed-end fund's profits, subject to the return of contributed capital and a preferred return of typically 8% per annum, and up to 20% of certain evergreen fund's annual profits, subject to high-water marks or hurdle rates. Incentive income is recognized when it is probable that a significant reversal will not occur. Revenue recognition is typically met (a) for closed-end funds, after all contributed capital and the preferred return on that capital have been distributed to the fund's investors, and (b) for certain evergreen funds, at the conclusion of each annual measurement period. Potential incentive income is highly susceptible to market volatility, the judgment and actions of third parties, and other factors outside of the Company's control. The Company's experience has demonstrated little predictive value in the amount of potential incentive income ultimately earned due to the highly uncertain nature of returns inherent in the markets and contingencies associated with many realization events. As a result, the amount of incentive income recognized in any given period is generally determined after giving consideration to a number of factors, including whether the fund is in its investment or liquidation period, and the nature and level of risk associated with changes in fair value of the remaining assets in the fund. In general, it would be unlikely that any amount of potential incentive income would be recognized until (a) the uncertainty is resolved or (b) the fund is near final liquidation, assets are under contract for sale or are of low risk of significant fluctuation in fair value, and the assets are significantly in excess of the threshold at which incentive income would be earned.

Incentives received by Oaktree before the revenue recognition criteria have been met are deferred and recorded as a deferred incentive income liability within accounts payable, accrued expenses and other liabilities in the consolidated statements of financial condition. The Company may receive tax distributions related to taxable income allocated by funds, which are treated as an advance of incentive income and subject to the same recognition criteria. Tax distributions are contractually not subject to clawback.

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, 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

Oaktree Capital Group, LLC
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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 pricing vendors or brokers. The Company seeks to obtain prices from at least two pricing vendors for the subject or similar securities. In cases where vendor pricing is not reflective of fair value, a secondary vendor is unavailable, or no vendor pricing is available, a comparison value made up of quotes for the subject or similar securities received from broker dealers may be used. 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 pricing vendors and brokers 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.

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

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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 6 and 10 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.

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

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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 August 2018, the Financial Accounting Standards Board ("FASB") issued guidance that changes the fair value measurement disclosure requirements. The amendments remove or modify certain disclosures, while adding others. The Company adopted the guidance in the first quarter of 2019. The adoption did not have a material impact on the consolidated financial statements.

In January 2017, the 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 the consolidated financial statements.

In February 2016, the FASB issued guidance that requires a lessee to recognize a lease asset and a lease liability for most of its operating leases. Under legacy GAAP, operating leases were not recognized by a lessee in its statements of financial position. In general, the asset and liability 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 adopted the guidance in the first quarter of 2019 under the simplified transition method, which allows companies to forgo the comparative reporting requirements initially required under the modified retrospective transition approach and apply the new guidance prospectively. The adoption did not have an impact on the consolidated statements of operations because all of the Company's 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, resulted in a significant gross-up in total assets and total liabilities on the consolidated statements of financial position. The amount of the liability represents the aggregate discounted amount of the Company's minimum lease obligations as of the reporting date. The difference between

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the asset and liability amounts represents deferred rent liabilities and lease incentives as of the reporting date that are netted against the asset amount.

3. REVENUES

Revenues disaggregated by fund structure is set forth below. Revenues are affected by economic factors related to the asset class composition of the holdings and the contractual terms such as the basis for calculating the management fees and investors' ability to redeem.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Management Fees				
Closed-end	\$ 115,254	\$ 117,423	\$ 224,629	\$ 240,810
Open-end	28,949	36,557	60,490	74,109
Evergreen	30,900	24,116	59,918	48,592
Total	<u>\$ 175,103</u>	<u>\$ 178,096</u>	<u>\$ 345,037</u>	<u>\$ 363,511</u>
Incentive Income				
Closed-end	\$ 135,962	\$ 31,880	\$ 232,443	\$ 183,786
Evergreen	2,418	3,307	2,418	3,307
Total	<u>\$ 138,380</u>	<u>\$ 35,187</u>	<u>\$ 234,861</u>	<u>\$ 187,093</u>

Contract Balances

The Company receives management fees monthly or quarterly in accordance with its contracts with customers. Incentive income is received when the fund makes a distribution. Contract assets relate to the Company's conditional right to receive payment for its performance completed under the contract. Receivables are recorded when the right to consideration becomes unconditional (i.e., only requires the passage of time). Contract liabilities (i.e., deferred revenues) relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenues when the Company provides investment management services.

The table below sets forth contract balances for the periods indicated:

	As of	
	June 30, 2019	December 31, 2018
Receivables ⁽¹⁾	\$ 64,354	\$ 74,795
Contract assets ⁽¹⁾	—	288,176
Contract liabilities ⁽²⁾	(29,889)	(26,549)

(1) The changes in the balances primarily related to accruals, net of payments received.

(2) Revenue recognized in the three months and six months ended June 30, 2019 from amounts included in the contract liability balance were \$6.6 million and \$13.1 million.

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4. 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 fees. 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, 2019, the Company consolidated 19 VIEs for which it was the primary beneficiary, including 8 funds managed by Oaktree, 10 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 satisfy risk retention requirements under Section 15G of the Exchange Act. As of December 31, 2018, the Company consolidated 23 VIEs.

As of June 30, 2019, the assets and liabilities of the 18 consolidated VIEs representing funds and CLOs amounted to \$7.3 billion and \$5.6 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, 2019, the Company's investments in consolidated VIEs had a carrying value of \$513.5 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 10 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 carrying value of the Company's investments in VIEs that were not consolidated are shown below.

	Carrying Value as of	
	June 30, 2019	December 31, 2018
Corporate investments	\$ 1,053,022	\$ 1,093,294
Due from affiliates	73,071	384,225
Maximum exposure to loss	<u>\$ 1,126,093</u>	<u>\$ 1,477,519</u>

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5. 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.

Corporate investments consisted of the following:

<u>Corporate Investments</u>	As of	
	June 30, 2019	December 31, 2018
Equity-method investments:		
Funds	\$ 1,053,897	\$ 1,089,068
Companies	27,476	45,797
Other investments, at fair value	73,080	74,899
Total corporate investments	<u>\$ 1,154,453</u>	<u>\$ 1,209,764</u>

The components of investment income are set forth below:

<u>Investment Income</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Equity-method investments:				
Funds	\$ 17,997	\$ 25,798	\$ 57,317	\$ 53,064
Companies	19,700	17,430	36,811	35,568
Other investments, at fair value	(4,862)	13,695	857	2,854
Total investment income	<u>\$ 32,835</u>	<u>\$ 56,923</u>	<u>\$ 94,985</u>	<u>\$ 91,486</u>

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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 but 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. For the six months ended June 30, 2019, no individual equity-method investment met the significance criteria.

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

Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues / investment income	\$ 339,302	\$ 457,262	\$ 1,231,263	\$ 934,753
Interest expense	(60,041)	(65,385)	(130,898)	(132,615)
Other expenses	(119,402)	(215,921)	(481,302)	(417,357)
Net realized and unrealized gain on investments	115,770	815,438	1,120,917	1,345,799
Net income	<u>\$ 275,629</u>	<u>\$ 991,394</u>	<u>\$ 1,739,980</u>	<u>\$ 1,730,580</u>

Other Investments, at Fair Value

Other investments, at fair value primarily consist of (a) investments in certain Oaktree and non-Oaktree funds for which the fair value option of accounting has been elected and (b) derivatives utilized to hedge the Company's exposure to investment income earned from its 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,	
	2019	2018	2019	2018
Realized gain (loss)	\$ 6,311	\$ 172	\$ 6,311	\$ 968
Net change in unrealized gain (loss)	(11,173)	13,523	(5,454)	1,886
Total gain (loss)	<u>\$ (4,862)</u>	<u>\$ 13,695</u>	<u>\$ 857</u>	<u>\$ 2,854</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>	<u>Fair Value as of</u>		<u>Fair Value as a Percentage of Investments of Consolidated Funds as of</u>	
	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
United States:				
Debt securities:				
Communication services	\$ 562,588	\$ 543,948	8.1%	8.4%
Consumer discretionary	463,591	506,551	6.7	7.8
Consumer staples	73,446	112,197	1.1	1.7
Energy	294,600	204,568	4.2	3.1
Financials	347,654	332,240	5.0	5.1
Health care	497,827	537,592	7.2	8.2
Industrials	506,454	443,406	7.3	6.8
Information technology	517,714	536,000	7.5	8.2
Materials	299,226	289,499	4.3	4.4
Real estate	261,778	217,633	3.8	3.3
Utilities	189,894	137,031	2.7	2.1
Total debt securities (cost: \$4,046,820 and \$4,019,823 as of June 30, 2019 and December 31, 2018, respectively)	4,014,772	3,860,665	57.9	59.1
Equity securities:				
Consumer discretionary	2,314	1,915	0.1	0.1
Energy	122	131	0.0	0.0
Financials	415	837	0.0	0.0
Health care	1,383	1,348	0.0	0.0
Industrials	100	88	0.0	0.0
Utilities	1,072	1,107	0.0	0.0
Total equity securities (cost: \$8,862 and \$6,117 as of June 30, 2019 and December 31, 2018, respectively)	5,406	5,426	0.1	0.1
Real estate:				
Real estate	57,080	—	0.8	—
Total real estate securities (cost: \$57,080 and \$0 as of June 30, 2019 and December 31, 2018, respectively)	57,080	—	0.8	—

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<u>Investments</u>	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Europe:				
Debt securities:				
Communication services	\$ 562,857	\$ 530,337	8.2%	8.1%
Consumer discretionary	570,296	545,324	8.2	8.3
Consumer staples	155,299	160,406	2.2	2.5
Energy	11,124	15,260	0.2	0.2
Financials	69,965	48,545	1.0	0.7
Health care	506,629	418,516	7.3	6.4
Industrials	280,831	246,640	4.0	3.8
Information technology	175,777	194,988	2.5	3.0
Materials	268,538	221,660	3.9	3.4
Real estate	27,598	30,045	0.4	0.5
Utilities	3,041	1,559	0.0	0.0
Total debt securities (cost: \$2,642,902 and \$2,477,821 as of June 30, 2019 and December 31, 2018, respectively)	2,631,955	2,413,280	37.9	36.9
Equity securities:				
Consumer staples	—	38	—	0.0
Financials	39,860	—	0.6	—
Health care	923	948	0.0	0.1
Total equity securities (cost: \$40,078 and \$320 as of June 30, 2019 and December 31, 2018, respectively)	40,783	986	0.6	0.1
Asia and other:				
Debt securities:				
Communication services	18,528	12,069	0.3	0.2
Consumer discretionary	45,019	36,822	0.6	0.6
Consumer staples	3,765	11,867	0.1	0.2
Energy	18,786	20,594	0.3	0.3
Financials	5,464	13,995	0.1	0.2
Government	5,708	12,155	0.1	0.2
Health care	6,952	9,633	0.1	0.1
Industrials	45,829	40,468	0.5	0.7
Information technology	3,519	1,887	0.1	0.0
Materials	14,410	15,516	0.2	0.2
Real estate	721	38,592	0.0	0.6
Utilities	18,650	14,870	0.3	0.2
Total debt securities (cost: \$184,948 and \$233,603 as of June 30, 2019 and December 31, 2018, respectively)	187,351	228,468	2.7	3.5

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	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Investments				
Asia and other:				
Equity securities:				
Consumer discretionary	\$ —	\$ 874	—%	0.0%
Consumer staples	15	997	0.0	0.0
Energy	355	382	0.0	0.0
Financials	—	2,935	—	0.0
Industrials	—	11,265	—	0.2
Information technology	—	1,725	—	0.0
Materials	1,787	4,382	0.0	0.1
Total equity securities (cost: \$3,880 and \$22,977 as of June 30, 2019 and December 31, 2018, respectively)	2,157	22,560	0.0	0.3
Total debt securities	6,834,078	6,502,413	98.5	99.5
Total equity securities	48,346	28,972	0.7	0.5
Total real estate	57,080	—	0.8	—
Total investments, at fair value	<u>\$ 6,939,504</u>	<u>\$ 6,531,385</u>	<u>100.0%</u>	<u>100.0%</u>
Securities Sold Short				
Equity securities (proceeds: \$0 and \$2,644 as of June 30, 2019 and December 31, 2018, respectively)	<u>\$ —</u>	<u>\$ (2,609)</u>		

As of June 30, 2019 and December 31, 2018, 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,			
	2019		2018	
	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	\$ 233	\$ 22,562	\$ (13,856)	\$ (46,500)
CLO liabilities ⁽¹⁾	—	(21,906)	—	14,785
Foreign-currency forward contracts ⁽²⁾	214	1,158	(2,507)	(465)
Total-return and interest-rate swaps ⁽²⁾	—	—	838	115
Options and futures ⁽²⁾	—	—	(1,771)	960
Total	<u>\$ 447</u>	<u>\$ 1,814</u>	<u>\$ (17,296)</u>	<u>\$ (31,105)</u>

	Six Months Ended June 30,			
	2019		2018	
	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	\$ (7,712)	\$ 152,232	\$ (2,534)	\$ (77,088)
CLO liabilities ⁽¹⁾	—	(93,989)	—	32,857
Foreign-currency forward contracts ⁽²⁾	2,340	688	(1,068)	(1,176)
Total-return and interest-rate swaps ⁽²⁾	—	—	858	29
Options and futures ⁽²⁾	—	—	47	(113)
Total	<u>\$ (5,372)</u>	<u>\$ 58,931</u>	<u>\$ (2,697)</u>	<u>\$ (45,491)</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 7 for additional information.

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6. 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 10 and 18 for the fair value of the Company's outstanding debt obligations and amounts due from/to affiliates, respectively.

	As of June 30, 2019				As of December 31, 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
U.S. Treasury and other securities ⁽¹⁾	\$ 387,585	\$ —	\$ —	\$ 387,585	\$ 546,531	\$ —	\$ —	\$ 546,531
Corporate investments	—	31,202	42,234	73,436	—	29,476	45,426	74,902
Foreign-currency forward contracts ⁽²⁾	—	1,148	—	1,148	—	1,654	—	1,654
Cross-currency swap ⁽²⁾	—	—	—	—	—	2,384	—	2,384
Total assets	\$ 387,585	\$ 32,350	\$ 42,234	\$ 462,169	\$ 546,531	\$ 33,514	\$ 45,426	\$ 625,471
Liabilities								
Contingent liability ⁽³⁾	\$ —	\$ —	\$ (6,737)	\$ (6,737)	\$ —	\$ —	\$ (6,657)	\$ (6,657)
Foreign-currency forward contracts ⁽⁴⁾	—	(2,519)	—	(2,519)	—	(2,318)	—	(2,318)
Cross-currency swap ⁽⁴⁾	—	(2,197)	—	(2,197)	—	—	—	—
Total liabilities	\$ —	\$ (4,716)	\$ (6,737)	\$ (11,453)	\$ —	\$ (2,318)	\$ (6,657)	\$ (8,975)

- (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.
(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 \$356 and \$3 as of June 30, 2019 and December 31, 2018, respectively, which are included within corporate investments in the condensed consolidated statements of financial condition.

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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,			
	2019		2018	
	Corporate Investments	Contingent Liability	Corporate Investments	Contingent Liability
Beginning balance	\$ 48,423	\$ (6,576)	\$ 53,095	\$ (16,203)
Contributions or additions	54	—	5,117	—
Distributions	(7,181)	—	(30,040)	—
Net gain (loss) included in earnings	938	(161)	2,912	7,074
Ending balance	<u>\$ 42,234</u>	<u>\$ (6,737)</u>	<u>\$ 31,084</u>	<u>\$ (9,129)</u>
Net change in unrealized gains (losses) attributable to financial instruments still held at end of period	<u>\$ 938</u>	<u>\$ (161)</u>	<u>\$ 2,740</u>	<u>\$ 7,074</u>

	Six Months Ended June 30,			
	2019		2018	
	Corporate Investments	Contingent Liability	Corporate Investments	Contingent Liability
Beginning balance	\$ 45,426	\$ (6,657)	\$ 50,902	\$ (18,778)
Contributions or additions	54	—	6,410	—
Distributions	(7,181)	—	(30,855)	—
Net gain (loss) included in earnings	3,935	(80)	4,627	9,649
Ending balance	<u>\$ 42,234</u>	<u>\$ (6,737)</u>	<u>\$ 31,084</u>	<u>\$ (9,129)</u>
Net change in unrealized gains (losses) attributable to financial instruments still held at end of period	<u>\$ 3,935</u>	<u>\$ (80)</u>	<u>\$ 3,659</u>	<u>\$ 9,649</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, 2019	December 31, 2018				
Corporate investment – Limited partnership interests	\$ 42,234	\$ 45,426	Market approach (value of underlying assets)	Not applicable	Not applicable	Not applicable
Contingent liability	(6,737)	(6,657)	Discounted cash flow	Assumed % of total potential contingent payments	0% – 100%	24%

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, 2019				As of December 31, 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investments:								
Corporate debt – bank debt	\$ —	\$ 5,446,582	\$ 101,495	\$ 5,548,077	\$ —	\$ 5,216,923	\$ 136,055	\$ 5,352,978
Corporate debt – all other	—	1,262,793	23,208	1,286,001	634	963,423	185,378	1,149,435
Equities – common stock	3,440	—	42,972	46,412	24,483	—	3,063	27,546
Equities – preferred stock	—	—	1,934	1,934	—	—	1,426	1,426
Real estate	—	—	57,080	57,080	—	—	—	—
Total investments	3,440	6,709,375	226,689	6,939,504	25,117	6,180,346	325,922	6,531,385
Derivatives:								
Foreign-currency forward contracts	—	3,350	—	3,350	—	2,275	—	2,275
Options and futures	—	—	—	—	189	—	—	189
Total derivatives ⁽¹⁾	—	3,350	—	3,350	189	2,275	—	2,464
Total assets	\$ 3,440	\$ 6,712,725	\$ 226,689	\$ 6,942,854	\$ 25,306	\$ 6,182,621	\$ 325,922	\$ 6,533,849
Liabilities								
CLO debt obligations:								
Senior secured notes	\$ —	\$ (4,146,828)	\$ —	\$ (4,146,828)	\$ —	\$ (3,976,602)	\$ —	\$ (3,976,602)
Subordinated notes	—	(165,195)	—	(165,195)	—	(151,392)	—	(151,392)
Total CLO debt obligations ⁽²⁾	—	(4,312,023)	—	(4,312,023)	—	(4,127,994)	—	(4,127,994)
Securities sold short:								
Equity securities	—	—	—	—	(2,609)	—	—	(2,609)
Derivatives:								
Foreign-currency forward contracts	—	(1,157)	—	(1,157)	—	(643)	—	(643)
Total derivatives ⁽³⁾	—	(1,157)	—	(1,157)	—	(643)	—	(643)
Total liabilities	\$ —	\$ (4,313,180)	\$ —	\$ (4,313,180)	\$ (2,609)	\$ (4,128,637)	\$ —	\$ (4,131,246)

- (1) Amounts are included in other assets under “assets of consolidated funds” in the condensed consolidated statements of financial condition.
- (2) The fair value of CLO liabilities is classified based on the more observable fair value of CLO assets. Please see notes 2 and 10 for more information.
- (3) Amounts are included in accounts payable, accrued expenses and other liabilities under “liabilities of consolidated funds” in the condensed consolidated statements of financial condition

Oaktree Capital Group, LLC
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	Equities – Preferred Stock	Real Estate	Total
Three Months Ended June 30, 2019						
Beginning balance	\$ 114,945	\$ 201,201	\$ 7,424	\$ 1,482	\$ —	\$ 325,052
Deconsolidation of funds	(49,454)	—	—	—	—	(49,454)
Transfers into Level III	6,775	(8,241)	(3,060)	—	—	(4,526)
Transfers out of Level III	15,735	(143,107)	—	—	—	(127,372)
Purchases	20,676	(6,639)	39,858	242	57,080	111,217
Sales	(7,157)	(17,915)	(799)	—	—	(25,871)
Realized gains (losses), net	133	235	3	—	—	371
Unrealized appreciation (depreciation), net	(158)	(2,326)	(454)	210	—	(2,728)
Ending balance	<u>\$ 101,495</u>	<u>\$ 23,208</u>	<u>\$ 42,972</u>	<u>\$ 1,934</u>	<u>\$ 57,080</u>	<u>\$ 226,689</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	<u>\$ 30,566</u>	<u>\$ (2,222)</u>	<u>\$ (55)</u>	<u>\$ 210</u>	<u>\$ —</u>	<u>\$ 28,499</u>
Three Months Ended June 30, 2018						
Beginning balance	\$ 94,495	\$ 87,401	\$ 3,703	\$ 611	\$ —	\$ 186,210
Transfers into Level III	3,765	292	—	—	—	4,057
Transfers out of Level III	(6,203)	—	(601)	—	—	(6,804)
Purchases	4,371	47,142	52,000	1,012	—	104,525
Sales	(11,852)	(10,938)	—	—	—	(22,790)
Realized gains (losses), net	140	163	—	—	—	303
Unrealized appreciation (depreciation), net	(1,187)	(124)	(168)	(37)	—	(1,516)
Ending balance	<u>\$ 83,529</u>	<u>\$ 123,936</u>	<u>\$ 54,934</u>	<u>\$ 1,586</u>	<u>\$ —</u>	<u>\$ 263,985</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	<u>\$ (1,539)</u>	<u>\$ (361)</u>	<u>\$ (166)</u>	<u>\$ (37)</u>	<u>\$ —</u>	<u>\$ (2,103)</u>

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Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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	Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Total
Six Months Ended June 30, 2019						
Beginning balance	\$ 136,055	\$ 185,378	\$ 3,063	\$ 1,426	\$ —	\$ 325,922
Deconsolidation of funds	(49,454)	—	—	—	—	(49,454)
Transfers into Level III	24,285	513	2,351	—	—	27,149
Transfers out of Level III	(18,085)	(149,387)	—	—	—	(167,472)
Purchases	27,773	10,519	39,857	242	57,080	135,471
Sales	(17,174)	(24,716)	(926)	—	—	(42,816)
Realized gains (losses), net	124	(126)	29	—	—	27
Unrealized appreciation (depreciation), net	(2,029)	1,027	(1,402)	266	—	(2,138)
Ending balance	<u>\$ 101,495</u>	<u>\$ 23,208</u>	<u>\$ 42,972</u>	<u>\$ 1,934</u>	<u>\$ 57,080</u>	<u>\$ 226,689</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	<u>\$ 26,808</u>	<u>\$ 539</u>	<u>\$ (1,003)</u>	<u>\$ 266</u>	<u>\$ —</u>	<u>\$ 26,610</u>
Six Months Ended June 30, 2018						
Beginning balance	\$ 86,999	\$ 75,388	\$ 3,427	\$ —	\$ 121,588	\$ 287,402
Deconsolidation of funds	—	—	—	—	(121,087)	(121,087)
Transfers into Level III	28,929	899	490	—	—	30,318
Transfers out of Level III	(13,492)	(490)	(658)	—	—	(14,640)
Purchases	9,187	78,265	52,056	1,248	—	140,756
Sales	(29,324)	(30,048)	(311)	—	(501)	(60,184)
Realized gains (losses), net	468	249	—	—	—	717
Unrealized appreciation (depreciation), net	762	(327)	(70)	338	—	703
Ending balance	<u>\$ 83,529</u>	<u>\$ 123,936</u>	<u>\$ 54,934</u>	<u>\$ 1,586</u>	<u>\$ —</u>	<u>\$ 263,985</u>
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	<u>\$ 28,537</u>	<u>\$ 8,158</u>	<u>\$ (602)</u>	<u>\$ (84)</u>	<u>\$ —</u>	<u>\$ 36,009</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 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, 2019:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs ⁽¹⁾⁽²⁾	Range	Weighted Average ⁽³⁾
Credit-oriented investments:					
Consumer discretionary:	\$ 8,621	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	6,203	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 14%	12%
Financials:	12,023	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	4,393	Discounted cash flow ⁽⁴⁾	Discount rate	9% – 12%	11%
Health care:	25,321	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	2,012	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 17%	12%
Real estate:	15,067	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	3,563	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 12%	11%
Other:	33,494	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	14,010	Discounted cash flow ⁽⁴⁾	Discount rate	8% – 15%	13%
Equity investments:					
	39,883	Recent transaction price ⁽⁸⁾	Quoted prices	Not applicable	Not applicable
	2,493	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 15%	11%
	2,166	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	4x – 8x	6x
	360	Market approach (comparable companies) ⁽⁶⁾	Revenue multiple ⁽⁹⁾	2x – 4x	3x
Real estate investments:					
	57,080	Recent transaction price ⁽⁸⁾	Quoted prices	Not applicable	Not applicable
Total Level III investments	<u>\$ 226,689</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, 2018:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs ⁽¹⁾⁽²⁾	Range	Weighted Average ⁽³⁾
Credit-oriented investments:					
Communication services:	\$ 20,746	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	2,416	Discounted cash flow ⁽⁴⁾	Discount rate	12% – 14%	13%
Financials:	108,277	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	3,608	Discounted cash flow ⁽⁴⁾	Discount rate	9% – 15%	14%
Health care:	37,724	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	2,550	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 16%	14%
Real estate:	79,562	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	4,570	Discounted cash flow ⁽⁴⁾	Discount rate	12% – 23%	14%
Other:	38,959	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	17,943	Discounted cash flow ⁽⁴⁾	Discount rate	8% – 15%	13%
	5,078	Recent transaction price ⁽⁶⁾	Not applicable	Not applicable	Not applicable
Equity investments:					
	2,099	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 30%	12%
	2,390	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	4x – 10x	7x
Total Level III investments	<u>\$ 325,922</u>				

- (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 vendor prices or broker quotes 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.
- (9) Revenue multiples are based on comparable public companies and transactions with comparable companies. The Company typically applies the multiple to trailing twelve-months' revenue. However, in certain cases other revenue measures, such as pro forma revenue, may be utilized if deemed to be more relevant.

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.

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During the three months ended June 30, 2019 and June 30, 2018, there were no changes in the valuation techniques for Level III securities.

7. DERIVATIVES AND HEDGING

The fair value of freestanding derivatives consisted of the following:

	Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value
As of June 30, 2019				
Foreign-currency forward contracts	\$ 76,474	\$ 1,148	\$ (139,327)	\$ (2,519)
Cross-currency swap	—	—	(242,195)	(2,197)
Total	<u>\$ 76,474</u>	<u>\$ 1,148</u>	<u>\$ (381,522)</u>	<u>\$ (4,716)</u>
As of December 31, 2018				
Foreign-currency forward contracts	\$ 58,254	\$ 1,654	\$ (77,156)	\$ (2,318)
Cross-currency swap	242,450	2,384	—	—
Total	<u>\$ 300,704</u>	<u>\$ 4,038</u>	<u>\$ (77,156)</u>	<u>\$ (2,318)</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Investment income	\$ (6,506)	\$ 10,056	\$ (4,777)	\$ (2,317)
General and administrative expense ⁽¹⁾	(2,548)	1,769	13	(1,303)
Total	<u>\$ (9,054)</u>	<u>\$ 11,825</u>	<u>\$ (4,764)</u>	<u>\$ (3,620)</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.

There were no derivatives outstanding that were designated as hedging instruments for accounting purposes as of June 30, 2019 and December 31, 2018.

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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 are accounted for as a hedging instrument utilizing hedge accounting.

The following tables summarize net gains (losses) from derivatives held by the consolidated funds:

	Three Months Ended June 30,			
	2019		2018	
	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.....	\$ 214	\$ 1,158	\$ (2,507)	\$ (465)
Total-return and interest-rate swaps.....	—	—	838	115
Options and futures.....	—	—	(1,771)	960
Total.....	<u>\$ 214</u>	<u>\$ 1,158</u>	<u>\$ (3,440)</u>	<u>\$ 610</u>

	Six Months Ended June 30,			
	2019		2018	
	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.....	\$ 2,340	\$ 688	\$ (1,068)	\$ (1,176)
Total-return and interest-rate swaps.....	—	—	858	29
Options and futures.....	—	—	47	(113)
Total.....	<u>\$ 2,340</u>	<u>\$ 688</u>	<u>\$ (163)</u>	<u>\$ (1,260)</u>

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.

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<u>As of June 30, 2019</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>	
Derivative Assets:				
Foreign-currency forward contracts	\$ 1,148	\$ 892	\$ —	\$ 256
<i>Derivative assets of consolidated funds:</i>				
Foreign-currency forward contracts	3,350	—	—	3,350
Total	<u>\$ 4,498</u>	<u>\$ 892</u>	<u>\$ —</u>	<u>\$ 3,606</u>
Derivative Liabilities:				
Foreign-currency forward contracts	\$ (2,519)	\$ (892)	\$ —	\$ (1,627)
Cross-currency swap	(2,197)	—	—	(2,197)
Subtotal	<u>(4,716)</u>	<u>(892)</u>	<u>—</u>	<u>(3,824)</u>
<i>Derivative liabilities of consolidated funds:</i>				
Foreign-currency forward contracts	(1,157)	—	—	(1,157)
Total	<u>\$ (5,873)</u>	<u>\$ (892)</u>	<u>\$ —</u>	<u>\$ (4,981)</u>

<u>As of December 31, 2018</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>	
Derivative Assets:				
Foreign-currency forward contracts	\$ 1,654	\$ 1,497	\$ —	\$ 157
Cross-currency swap	2,384	—	—	2,384
Subtotal	<u>4,038</u>	<u>1,497</u>	<u>—</u>	<u>2,541</u>
<i>Derivative assets of consolidated funds:</i>				
Foreign-currency forward contracts	2,275	—	—	2,275
Options and futures	189	—	—	189
Subtotal	<u>2,464</u>	<u>—</u>	<u>—</u>	<u>2,464</u>
Total	<u>\$ 6,502</u>	<u>\$ 1,497</u>	<u>\$ —</u>	<u>\$ 5,005</u>
Derivative Liabilities:				
Foreign-currency forward contracts	\$ (2,318)	\$ (1,497)	\$ —	\$ (821)
<i>Derivative liabilities of consolidated funds:</i>				
Foreign-currency forward contracts	(643)	—	—	(643)
Total	<u>\$ (2,961)</u>	<u>\$ (1,497)</u>	<u>\$ —</u>	<u>\$ (1,464)</u>

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8. 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:

	As of	
	June 30, 2019	December 31, 2018
Furniture, equipment and capitalized software	\$ 28,423	\$ 26,345
Leasehold improvements	72,871	70,270
Corporate aircraft	66,120	66,120
Other	5,113	4,859
Fixed assets	<u>172,527</u>	<u>167,594</u>
Accumulated depreciation	(66,603)	(61,879)
Fixed assets, net	<u>\$ 105,924</u>	<u>\$ 105,715</u>

9. 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 June 30, 2019, the Company had determined there was no goodwill impairment. The carrying value of goodwill was \$69.3 million as of June 30, 2019 and December 31, 2018.

The following table summarizes the carrying value of intangible assets:

	As of	
	June 30, 2019	December 31, 2018
Contractual rights	\$ 347,452	\$ 347,452
Accumulated amortization	(41,560)	(33,173)
Intangible assets, net	<u>\$ 305,892</u>	<u>\$ 314,279</u>

Amortization expense associated with the Company's intangible assets was \$4.2 million and \$8.4 million for both the three and six months ended June 30, 2019 and 2018, respectively. Future amortization of intangible assets held as of June 30, 2019 is set forth below:

Remainder of 2019	\$ 8,393
2020	16,780
2021	15,112
2022	12,777
2023	12,777
Thereafter	240,053
Total	<u>\$ 305,892</u>

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

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10. DEBT OBLIGATIONS AND CREDIT FACILITIES

The Company's debt obligations are set forth below:

	As of	
	June 30, 2019	December 31, 2018
\$250,000, 3.78%, issued in December 2017, payable on December 18, 2032	\$ 250,000	\$ 250,000
\$250,000, variable-rate term loan, issued in March 2014, payable on March 29, 2023 ⁽¹⁾	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	750,000	750,000
Less: Debt issuance costs	(3,790)	(4,055)
Debt obligations	\$ 746,210	\$ 745,945

(1) The credit facility consists of a \$150 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 0.10% 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 amended above). As of June 30, 2019, the Company had no outstanding borrowings under the revolving credit facility.

As of June 30, 2019, future scheduled principal payments of debt obligations were as follows:

Remainder of 2019	\$	—
2020		—
2021		—
2022		—
2023		150,000
Thereafter		600,000
Total		\$ 750,000

The Company was in compliance with all financial maintenance covenants associated with its senior notes and bank credit facility as of June 30, 2019 and December 31, 2018.

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 \$790.0 million and \$720.3 million as of June 30, 2019 and December 31, 2018, respectively, utilizing an average borrowing rate of 3.1% and 4.4%, respectively. As of June 30, 2019, a 10% increase in the assumed average borrowing rate would lower the estimated fair value to \$770.5 million, whereas a 10% decrease would increase the estimated fair value to \$809.5 million.

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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>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Maturity (years)</u>	<u>Commitment Fee Rate</u>	<u>L/C Fee</u>
	<u>June 30, 2019</u>	<u>December 31, 2018</u>					
Senior variable rate notes	\$ 914,499	\$ 870,098	\$1,020,100	3.73%	9.2	N/A	N/A
Less: Debt issuance costs	(4,818)	(5,569)					
Total debt obligations, net	<u>\$ 909,681</u>	<u>\$ 864,529</u>					

As of June 30, 2019 and December 31, 2018, the consolidated funds had debt obligations with an aggregate outstanding principal balance of \$914.5 million. The fair value of the senior variable rate notes is a Level III valuation and aggregated \$914.4 million and \$871.3 million as of June 30, 2019 and December 31, 2018, respectively, using prices obtained from pricing vendors. 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.

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.

Outstanding debt obligations of CLOs were as follows:

	<u>As of June 30, 2019</u>			<u>As of December 31, 2018</u>		
	<u>Fair Value ⁽¹⁾</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Maturity (years)</u>	<u>Fair Value ⁽¹⁾</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Maturity (years)</u>
Senior secured notes	\$ 4,146,828	2.71%	10.0	\$ 3,976,602	2.69%	9.9
Subordinated notes ⁽²⁾	165,195	N/A	8.8	151,392	N/A	9.7
Total CLO debt obligations	<u>\$ 4,312,023</u>			<u>\$ 4,127,994</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 6 for more information.
- (2) 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, 2019 and December 31, 2018, the fair value of CLO assets was \$4.9 billion and \$4.7 billion, respectively, and consisted of cash, corporate loans, corporate bonds and other securities.

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As of June 30, 2019, future scheduled principal or par value payments with respect to the debt obligations of CLOs were as follows:

Remainder of 2019	\$ 132,966
2020	—
2021	—
2022	—
2023	—
Thereafter	4,222,587
Total	<u>\$ 4,355,553</u>

11. LEASES

The Company has operating leases related to office space and certain equipment with remaining lease terms expiring within one year through 2031, some of which include options to extend the leases for up to five years and some of which include options to terminate the leases within one year. As of June 30, 2019, there were no finance leases outstanding and no additional operating leases that have not yet commenced.

The components of lease expense were as follows:

	<u>Three Months Ended June 30, 2019</u>	<u>Six Months Ended June 30, 2019</u>
Operating lease cost	\$ 4,673	\$ 9,487
Sublease income	(82)	(82)
Total lease cost	<u>\$ 4,591</u>	<u>\$ 9,405</u>

Supplemental cash flow information related to leases was as follows:

	<u>Six Months Ended June 30, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used for operating leases	\$ 9,706
Weighted average remaining lease term for operating leases (in years)	9.7
Weighted average discount rate for operating leases	4.4%

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As of June 30, 2019, maturities of operating lease liabilities were as follows:

Remainder of 2019	\$ 9,854
2020	18,929
2021	17,911
2022	17,350
2023	16,785
Thereafter	86,424
Total lease payments	<u>167,253</u>
Less: imputed interest	<u>(32,160)</u>
Total operating lease liabilities	<u><u>\$ 135,093</u></u>

12. 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.

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 961,622	\$ 860,548
Contributions	141,057	107,177
Distributions	(96,987)	(174,973)
Net income	86,442	4,209
Change in distributions payable	4,209	(435)
Foreign currency translation and other	(3,021)	(939)
Ending balance	<u><u>\$ 1,093,322</u></u>	<u><u>\$ 795,587</u></u>

13. UNITHOLDERS' CAPITAL

Unitholders' capital reflects the economic interests attributable to Class A unitholders, preferred 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, after giving effect to distributions, if any, attributable to the preferred unitholders, based on the proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Certain expenses, such as income taxes 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, 2019 and December 31, 2018, respectively, OCGH units represented 84,001,461 of the total 159,650,948 Oaktree Operating Group units and 85,471,937 of the total 157,133,560 Oaktree Operating Group units. Based on total allocable Oaktree Operating Group capital of \$1,935,063 and \$1,997,745 as of June 30, 2019 and December 31, 2018, respectively, the OCGH non-controlling interest was \$1,018,173 and \$1,086,693. As of June 30, 2019 and December 31, 2018, non-controlling interests attributable to third parties was \$4,566 and \$5,661, respectively.

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The following table sets forth a summary of net income attributable to the preferred unitholders, the OCGH non-controlling interest and the Class A common unitholders:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Weighted average Oaktree Operating Group units outstanding (in thousands):				
OCGH non-controlling interest	85,269	86,007	85,371	87,133
Class A unitholders	74,340	71,177	72,994	69,556
Total weighted average units outstanding	<u>159,609</u>	<u>157,184</u>	<u>158,365</u>	<u>156,689</u>
Oaktree Operating Group net income:				
Net income attributable to preferred unitholders ⁽¹⁾	\$ 6,829	\$ —	\$ 13,658	\$ —
Net income attributable to OCGH non-controlling interest	49,397	41,296	114,869	114,551
Net income attributable to OCG Class A unitholders	43,068	34,177	97,934	90,539
Oaktree Operating Group net income ⁽²⁾	<u>\$ 99,294</u>	<u>\$ 75,473</u>	<u>\$ 226,461</u>	<u>\$ 205,090</u>
Net income attributable to OCG Class A unitholders:				
Oaktree Operating Group net income attributable to OCG Class A unitholders	\$ 43,068	\$ 34,177	\$ 97,934	\$ 90,539
Non-Operating Group income (expense)	(676)	(328)	(4,320)	(308)
Income tax benefit (expense) of Intermediate Holding	52	(2,728)	(3,916)	(6,378)
Net income attributable to OCG Class A unitholders	<u>\$ 42,444</u>	<u>\$ 31,121</u>	<u>\$ 89,698</u>	<u>\$ 83,853</u>

(1) Represents distributions declared, if any, on the preferred units.

(2) Oaktree Operating Group net income does not include amounts attributable to other non-controlling interests, which amounted to \$618 and \$1,261 for the three and six months ended June 30, 2019, respectively and \$697 and \$1,389 for the three and six months ended June 30, 2018, respectively.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income attributable to OCG Class A unitholders	\$ 42,444	\$ 31,121	\$ 89,698	\$ 83,853
Equity reallocation between controlling and non-controlling interests	30,440	(75)	36,565	73,755
Change from net income attributable to OCG Class A unitholders and transfers from non-controlling interests	<u>\$ 72,884</u>	<u>\$ 31,046</u>	<u>\$ 126,263</u>	<u>\$ 157,608</u>

Please see notes 14, 15 and 16 for additional information regarding transactions that impacted unitholders' capital.

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14. 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,	
	2019	2018	2019	2018
	(in thousands, except per unit amounts)			
Net income per Class A unit (basic and diluted):				
Net income attributable to OCG Class A unitholders	\$ 42,444	\$ 31,121	\$ 89,698	\$ 83,853
Weighted average number of Class A units outstanding (basic and diluted)	74,340	71,177	72,994	69,556
Basic and diluted net income per Class A unit	\$ 0.57	\$ 0.44	\$ 1.23	\$ 1.21

OCGH units may be exchanged on a one-for-one basis into Class A units, subject to certain restrictions. As of June 30, 2019, there were 84,001,461 OCGH units outstanding, which are vested or will vest through February 15, 2029, that ultimately may be exchanged into 84,001,461 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, 2019 and 2018.

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 2024. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over periods up to 10.0 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 or for the three and six months ended June 30, 2019 and 2018, 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 those periods. Please see note 15 for more information.

Certain compensation arrangements include performance-based awards that could result in the issuance of up to 340,000 OCGH units in total, which would vest over periods of four to ten years from date of issuance. As of or for the three and six months ended June 30, 2019 and 2018, no OCGH units were considered issuable under the terms of these arrangements. Consequently, no contingently issuable units were included in the computation of diluted earnings per unit for those periods.

The Company has a contingent consideration liability that is payable in cash and Class A units. No Class A units were considered issuable under the terms of the arrangement as of or for the three and six months ended June 30, 2019 and 2018. Consequently no contingently issuable units were included in the computation of diluted earnings per unit for those periods. Please see note 17 for more information.

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15. EQUITY-BASED COMPENSATION

Class A and OCGH Unit Awards

During the six months ended June 30, 2019, the Company granted 1,464,301 Class A units and 1,320,224 restricted OCGH units to its employees and directors, subject to annual vesting over a weighted average period of approximately 5.7 years. The grant date fair value of OCGH units awarded during the six months ended June 30, 2019 was determined by applying a 17.5% discount to the Class A unit trading price on the New York Stock Exchange as of the grant date. With respect to forfeitures, the Company has made an accounting policy election to account for forfeitures when they occur. Accordingly, no forfeitures have been assumed in the calculation of compensation expense.

As of June 30, 2019, the Company expected to recognize compensation expense on its unvested Class A and OCGH unit awards of \$221.9 million over a weighted average period of 4.5 years.

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

	Class A Units		OCGH Units ⁽¹⁾	
	Number of Units	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Balance as of December 31, 2018	2,700,585	\$ 42.76	1,864,049	\$ 39.83
Granted	1,464,301	49.52	1,320,224	40.85
Vested	(897,558)	42.86	(366,338)	35.30
Forfeited	(26,926)	44.31	—	—
Balance as of June 30, 2019	<u>3,240,402</u>	\$ 45.78	<u>2,817,935</u>	\$ 40.90

(1) Excludes certain performance-based awards that could result in the issuance of up to 340,000 OCGH units, which would vest over periods of four to ten years from date of issuance. Though no units have been issued to date under these arrangements, as of June 30, 2019 the Company expected to recognize compensation expense on 320,000 unvested OCGH performance awards of \$7.2 million over a weighted average period of 3.9 years.

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.

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.

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, 2019, there were 1,000,000 equity-classified EVUs and 1,000,000 liability-classified EVUs outstanding. As of June 30, 2019, the Company expected to recognize \$0.7 million of compensation expense on its unvested EVUs

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over the next 0.5 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.

The fair value of EVUs was determined using a Monte Carlo simulation model. 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 2029. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over periods of up to 10.0 years. The holder of a deferred equity unit is not entitled to any distributions until settled by the issuance of an OCGH unit. As of June 30, 2019, there were 847,115 deferred equity units outstanding. As of June 30, 2019, the Company expected to recognize compensation expense on 557,308 deferred equity units of \$19.9 million over a weighted average period of 7.7 years.

The fair value of the deferred equity units issued in the six months ended June 30, 2019 was determined at the grant date based on the then-prevailing Class A unit trading price and reflected a 17.5% lack-of-marketability discount for the OCGH units that will be issued upon vesting.

16. 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, 2020, 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 \$3.0 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

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(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 further 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 estimated future payments to OCGH unitholders under the tax receivable agreement, as of June 30, 2019, are set forth below:

<u>Transaction</u>	<u>Total Future Payments</u>	<u>Payments Through Fiscal Year</u>
2007 private offering	\$ 13,396	2029
Initial public offering	32,411	2034
May 2013 offering	45,649	2035
March 2014 offering	34,640	2036
March 2015 offering	29,446	2037
February 2018 offering	32,330	2040
Total	<u>\$ 187,872</u>	

Future estimated payments to OCGH unitholders under the tax receivable agreement are subject to increase in the event of additional exchanges of OCGH units. The Company did not make any payments under the tax receivable agreement during the six months ended June 30, 2019.

17. 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 as revenue until it is probable that a significant reversal will not occur. As of June 30, 2019 and December 31, 2018, respectively, the aggregate of such amounts recorded at the fund level in excess of incentive income recognized by the Company was \$1,293,366 and \$1,434,458, for which related direct incentive income compensation expense was estimated to be \$675,029 and \$754,903.

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Contingent Liabilities

The Company has a contingent consideration obligation of up to \$36.1 million, payable in cash and Class A units. The amount of contingent consideration is based on the achievement of certain performance targets. As of both June 30, 2019 and December 31, 2018, the fair value of the contingent liability was \$6.7 million. Changes in this liability resulted in expense of \$0.2 million and income of \$0.1 million for the three and six months ended June 30, 2019, respectively and income of \$7.1 million and \$9.6 million for the three and six months ended June 30 2018, 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.

In connection with the BDC acquisition in October 2017, Fifth Street Management LLC pledged assets with an estimated fair value of \$56.2 million to indemnify the Company or the BDCs against any claims or assessments arising from the period during which it managed the BDCs. As of June 30, 2019, the remaining amount of the pledged assets was \$32.0 million.

Commitments to Funds

As of June 30, 2019 and December 31, 2018, the Company, generally in its capacity as general partner, had undrawn capital commitments of \$370.5 million and \$385.8 million, respectively, including commitments to both unconsolidated and consolidated funds.

Investment Commitments of the 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, 2019 and December 31, 2018, the consolidated funds had potential aggregate commitments of \$39.0 million and \$13.8 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, 2019 and December 31, 2018, 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, 2019, the consolidated funds did not provide any financial support to portfolio companies.

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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18. 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 approximated the Company's cost of debt. The fair value of amounts due to affiliates approximated \$101,513 and \$95,953 as of June 30, 2019 and December 31, 2018, respectively, based on a discount rate of 10.0%.

	As of	
	June 30, 2019	December 31, 2018
Due from affiliates:		
Loans	\$ 3,820	\$ 3,857
Amounts due from unconsolidated funds	59,804	72,588
Management fees and incentive income due from unconsolidated funds	67,353	362,971
Payments made on behalf of unconsolidated entities	3,170	3,469
Non-interest bearing advances made to certain non-controlling interest holders and employees	—	27
Total due from affiliates	\$ 134,147	\$ 442,912
Due to affiliates:		
Due to OCGH unitholders in connection with the tax receivable agreement (please see note 16)	\$ 187,872	\$ 187,872
Amounts due to senior executives, certain non-controlling interest holders and employees	1,119	495
Total due to affiliates	\$ 188,991	\$ 188,367

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 \$25 and \$48 for the three and six months ended June 30, 2019, respectively, and \$62 and \$171 for the three and six months ended June 30, 2018, respectively.

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 \$291.7 million and \$534.6 million for the three and six months ended June 30, 2019, respectively, and \$189.5 million and \$501.6 million for the three and six months ended June 30, 2018, 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

Oaktree Capital Group, LLC
Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)
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quarter in which the capital calls occurred. Amounts advanced by the Company are included within “non-interest bearing advances made to certain non-controlling interest holders and employees” in the table above.

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. The Company also provides certain senior executives a personal travel allowance for private aircraft usage up to a certain threshold pursuant to the same Company policy. 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.

19. 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.

20. SUBSEQUENT EVENTS

Preferred Unit Distributions

On July 25, 2019, the Company announced a distribution of \$0.414063 per Series A preferred unit, which will be paid on September 16, 2019 to Series A preferred unitholders of record at the close of business on September 1, 2019.

On July 25, 2019, the Company announced a distribution of \$0.409375 per Series B preferred unit, which will be paid on September 16, 2019 to Series B preferred unitholders of record at the close of business on September 1, 2019.

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 \$120.4 billion in AUM as of June 30, 2019. 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 credit, private equity, real assets 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 (excluding DoubleLine's clientele) includes 71 of the 100 largest U.S. pension plans, 38 state retirement plans in the United States, over 400 corporations and/or their pension funds, over 330 university, charitable and other endowments and foundations, over 15 sovereign wealth funds, and over 400 other non-U.S. institutional investors. As measured by AUM (excluding our pro-rata portion of DoubleLine's AUM), approximately 74% of our clients are invested in two or more different investment strategies, and 35% are invested in four or more. Headquartered in Los Angeles, we serve these clients with over 950 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 net asset value ("NAV") of the particular fund. Incentive income represents our share (up to 20%) of the investors' profits in most of the closed-end and evergreen funds. Investment income generally 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 realized investment income proceeds. Those same markets may delay or diminish opportunities to deploy capital and thus management fees from certain of our funds.

Financial markets were broadly higher in the second quarter of 2019. The S&P 500 Index and the Russell 2000 Index finished the quarter with a total return of 4.3% and 2.1%, respectively. Non-U.S. equities, as measured by the MSCI ACWI ex-USA Index, returned 3.2%, emerging market equities, as measured by the MSCI Emerging Markets Index, returned 0.7%, and European equity markets, as measured by the MSCI Europe Index, returned 4.9%. Credit markets also performed relatively well for the quarter. Treasury bond prices declined for the quarter,

with the 10-year U.S. Treasury yield declining 41 basis points, to 2.00%, from 2.41% at the end of the first quarter 2019. U.S. high yield bonds, as measured by the FTSE US High Yield Cash-Pay Capped Index, returned 2.3% for the quarter, European high yield bonds, as measured by the ICE BofAML Global Non-Financial High Yield European Issuers excluding Russia 3% Constrained Index, returned 2.6% and emerging market corporate bonds, as measured by the JP Morgan Corporate Emerging Markets Bond Index (CEMBI), returned 3.2%.

Against this backdrop, Oaktree's incentive-creating closed-end funds delivered an overall blended gross return of 1.6% and 6.4% for the quarter and 12 months ended June 30, 2019. These returns exclude Highstar Capital IV, the infrastructure fund we inherited when adding the Highstar team back in 2014. Including Highstar Capital IV, the overall blended gross return was 1.5% and 5.7% for the quarter and last 12 months, respectively. As of June 30, 2019, AUM was \$120.4 billion and management fee-generating AUM was \$101.4 billion. Gross capital raised was \$4.3 billion and \$13.4 billion for the quarter and 12 months ended June 30, 2019, respectively. As of June 30, 2019, uncalled capital commitments were \$18.0 billion. Of these commitments, \$13.2 billion were not yet generating management fees ("shadow AUM").

Agreement and Plan of Merger

On March 13, 2019, OCG and Brookfield entered into a definitive merger agreement pursuant to which Brookfield will acquire approximately 62% of Oaktree's business in a stock and cash transaction. Following the transaction, the remaining 38% of the business will continue to be owned by OCGH, whose unitholders consist primarily of OCG's founders and certain other members of management and current and former employees. As part of the transaction, Brookfield will acquire all outstanding OCG Class A units for, at the election of OCG Class A unitholders, either \$49.00 in cash or 1.0770 Class A shares of Brookfield per OCG Class A unit (subject to pro-ration to ensure that no more than fifty percent (50%) of the aggregate merger consideration is paid in the form of cash or stock), in each case, without interest and subject to any applicable withholding taxes. In addition, the founders, senior management, and current and former employee-unitholders of OCGH will sell to Brookfield 20% of their OCGH units for the same consideration as the OCG Class A unitholders. On June 25, 2019, OCG received written consent in favor of the adoption of the merger agreement from OCGH, constituting the requisite approval of the transaction by OCG unitholders. The transaction is anticipated to close during the third quarter of 2019, subject to customary closing conditions including certain regulatory approvals.

Upon closing of the transaction, OCG and Brookfield will continue to operate their respective businesses independently, partnering to leverage their strengths – with each remaining under its current brand and led by its existing management and investment teams. Howard Marks will continue as Co-Chairman of Oaktree, Bruce Karsh as Co-Chairman and Chief Investment Officer, and Jay Wintrob as Chief Executive Officer. Howard Marks and Bruce Karsh will continue to have operating control of Oaktree as an independent entity. In addition, Howard Marks will join Brookfield's board of directors.

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 included elsewhere in this quarterly report for more information.

We do not consolidate most of the Oaktree funds that are VIEs because we are not the primary beneficiary due to the fact that our fee arrangements are considered at-market and thus 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. For non-GAAP reporting, management fees include the portion of the earnings from management fees attributable to our minority equity interest in DoubleLine. 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 after we have returned to our investors 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. For non-GAAP reporting, incentive income also includes the portion of the performance fees attributable to our minority equity interest in DoubleLine earned in the period. 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”), deferred equity units and other performance-based units, and includes salaries, bonuses, compensation based on management fees or a definition of profits, employee benefits, payroll taxes 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. For GAAP, compensation and benefits expense reflects the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company has determined it is the principal.

Equity-based Compensation

Equity-based compensation expense reflects the non-cash charge associated with grants of Class A units, OCGH units, EVUs, deferred equity units and other performance-based units. As of June 30, 2019, there was \$252.0 million of unrecognized compensation expense, which is expected to be recognized as expense over a weighted average vesting period of 4.8 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 and other performance-based units that are expected to vest.

The following table summarizes the estimated amount of equity-based compensation expense to be recognized:

Equity-based Compensation Expense	Remainder of 2019	2020	2021	2022	2023	Thereafter	Total
				(in millions)			
Estimated expense from equity grants awarded through June 2019	\$ 45.3	\$ 67.3	\$ 50.1	\$ 34.1	\$ 15.8	\$ 39.4	\$ 252.0

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 incentive income from consolidated funds is eliminated in consolidation, whereas no incentive income compensation expense is eliminated in consolidation. For the most comparable 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, placement costs, 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. For GAAP, general and administrative expense reflects the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company has determined it is the principal.

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 seven to 25 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. For non-GAAP reporting, investment income attributable to our minority equity interest in DoubleLine is reflected in management fees and incentive income as discussed under "Revenues" above.

Other Income (Expense), Net

Other income (expense), net includes non-operating income or expense items.

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. Instead, 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 13 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.

Net Income Attributable to Preferred Unitholders

This category represents distributions declared, if any, on our preferred units. Please see note 13 to our condensed consolidated financial statements for more information.

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 distributable earnings and fee-related earnings, each for both the Operating Group and per Class A unit. For a detailed reconciliation of the non-GAAP results of operations to our condensed consolidated statements of operations, please see “—Non-GAAP Results—Reconciliation of GAAP to Non-GAAP Results” below.

Distributable Earnings

We use distributable earnings to help evaluate the financial performance of, and make resource allocation and other operating decisions for, our business. Distributable earnings (“DE”) is a non-GAAP performance measure of profitability for our investment management business. DE reflects our realized earnings, after deducting preferred unit distributions, 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.

DE revenues include the portion of the earnings from management fees and performance fees attributable to our 20% ownership interest in DoubleLine, which are reflected as investment income in our GAAP statements of operations. DE excludes (a) unrealized incentive income and the associated incentive income compensation expense, (b) unrealized gains and losses resulting from foreign-currency transactions and hedging activities, and (c) excludes investment income or loss, which is largely non-cash in nature, and includes the portion of income or loss on distributions received from funds and companies. DE also excludes (a) non-cash equity-based compensation expense, (b) acquisition-related items, including amortization of intangibles, changes in the contingent consideration liability and costs related to the Brookfield transaction, (c) income taxes and other income or expense applicable to OCG or its Intermediate Holding Companies, and (d) non-controlling interests. In addition, any make-whole premium charges related to the repayment of debt are, for DE purposes, amortized through the original maturity date of the repaid debt.

Distributable earnings-Class A, 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 DE attributable to their ownership. Distributable earnings-Class A represents DE, 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 a tax receivable agreement. The income tax expense included in distributable earnings-Class A 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 GAAP.

Fee-related Earnings

Fee-related earnings (“FRE”) is a non-GAAP performance measure that we use to monitor the baseline earnings of our business. FRE is a component of DE and is comprised of management fees (“fee 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 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 realized investment income proceeds. FRE is presented before income taxes.

Fee-related earnings-Class A, 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 FRE attributable to their ownership. Fee-related earnings-Class A represents FRE 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-Class A income taxes is 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 our pro-rata portion of AUM managed by DoubleLine in which we hold a minority ownership interest. For our CLOs, AUM represents the aggregate par value of collateral assets and principal cash, for our publicly-traded BDCs, gross assets (including assets acquired with leverage), net of cash, and for DoubleLine funds, NAV. 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 generally reflects the beginning AUM on which we will earn management fees in the following quarter, as well as our pro-rata portion of the fee basis of DoubleLine's AUM. 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. Certain closed-end funds pay management fees based on gross assets or NAV. 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, our CLOs pay management fees based on the aggregate par value of collateral assets and principal cash, as defined in the applicable CLO indentures, our publicly-traded BDCs pay management fees based on gross assets (including assets acquired with leverage), net of cash, and DoubleLine funds typically pay management fees based on NAV.
- **Incentive-creating Assets Under Management.** Incentive-creating AUM refers to the AUM that may eventually produce incentive income. It generally 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), gross assets (including assets acquired with leverage), net of cash, for our publicly-traded BDCs, and our pro-rata portion of DoubleLine's incentive-creating AUM. 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, and includes our pro-rata portion of performance fees attributable to our minority interest in DoubleLine earned in 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%. Under GAAP, incentive income is recognized when it is probable that significant reversal of revenue will not occur. Distributable earnings includes incentive income when realized, which reduces the possibility that revenue recognized by us would be reversed in a subsequent period. We track incentives created (fund level) because it provides an indication of the value for us currently being created by our investment activities.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, except per unit data)			
Revenues:				
Management fees	\$ 175,103	\$ 178,096	\$ 345,037	\$ 363,511
Incentive income	138,380	35,187	234,861	187,093
Total revenues	<u>313,483</u>	<u>213,283</u>	<u>579,898</u>	<u>550,604</u>
Expenses:				
Compensation and benefits	(109,115)	(105,073)	(223,638)	(213,827)
Equity-based compensation	(22,648)	(15,246)	(36,977)	(29,867)
Incentive income compensation	(73,122)	(15,218)	(125,422)	(100,033)
Total compensation and benefits expense	<u>(204,885)</u>	<u>(135,537)</u>	<u>(386,037)</u>	<u>(343,727)</u>
General and administrative	(50,138)	(39,444)	(97,741)	(72,408)
Depreciation and amortization	(6,566)	(6,551)	(13,130)	(12,953)
Consolidated fund expenses	(4,299)	(3,074)	(6,454)	(6,554)
Total expenses	<u>(265,888)</u>	<u>(184,606)</u>	<u>(503,362)</u>	<u>(435,642)</u>
Other income (loss):				
Interest expense	(43,995)	(35,469)	(89,760)	(76,048)
Interest and dividend income	84,648	67,980	176,900	130,599
Net realized gain (loss) on consolidated funds' investments	447	(17,296)	(5,372)	(2,697)
Net change in unrealized appreciation (depreciation) on consolidated funds' investments	1,814	(31,105)	58,931	(45,491)
Investment income	32,835	56,923	94,985	91,486
Other income, net	36	914	58	1,611
Total other income	<u>75,785</u>	<u>41,947</u>	<u>235,742</u>	<u>99,460</u>
Income before income taxes	123,380	70,624	312,278	214,422
Income taxes	(1,852)	(4,867)	(6,350)	(11,264)
Net income	<u>121,528</u>	<u>65,757</u>	<u>305,928</u>	<u>203,158</u>
Less:				
Net income attributable to non-controlling interests in consolidated funds	(22,240)	7,360	(86,442)	(3,365)
Net income attributable to non-controlling interests in consolidated subsidiaries	(50,015)	(41,996)	(116,130)	(115,940)
Net income attributable to OCG	49,273	31,121	103,356	83,853
Net income attributable to preferred unitholders	(6,829)	—	(13,658)	—
Net income attributable to OCG Class A unitholders	<u>\$ 42,444</u>	<u>\$ 31,121</u>	<u>\$ 89,698</u>	<u>\$ 83,853</u>
Distributions declared per Class A unit	<u>\$ 1.05</u>	<u>\$ 0.96</u>	<u>\$ 1.80</u>	<u>\$ 1.72</u>
Net income per Class A unit (basic and diluted):				
Net income per Class A unit	<u>\$ 0.57</u>	<u>\$ 0.44</u>	<u>\$ 1.23</u>	<u>\$ 1.21</u>
Weighted average number of Class A units outstanding	<u>74,340</u>	<u>71,177</u>	<u>72,994</u>	<u>69,556</u>

Second Quarter Ended June 30, 2019 Compared to the Second Quarter Ended June 30, 2018

Revenues

Management Fees

Management fees decreased \$3.0 million, or 1.7%, to \$175.1 million for the second quarter of 2019, from \$178.1 million for the second quarter of 2018. The decrease reflected an aggregate decline of \$25.9 million primarily attributable to unconsolidated closed-end funds in liquidation, partially offset by an aggregate increase of \$22.9 million principally from closed-end funds in their investment periods.

Incentive Income

Incentive income increased \$103.2 million, or 293.2%, to \$138.4 million for the second quarter of 2019, from \$35.2 million for the second quarter of 2018. The second quarter of 2019 included \$118.7 million from Oaktree Opportunities Fund VIII.

Expenses

Compensation and Benefits

Compensation and benefits expense increased \$4.0 million, or 3.8%, to \$109.1 million for the second quarter of 2019, from \$105.1 million for the second quarter of 2018, primarily driven by growth in headcount.

Equity-based Compensation

Equity-based compensation expense increased \$7.4 million, or 48.7%, to \$22.6 million for the second quarter of 2019, from \$15.2 million for the second quarter of 2018, primarily reflecting the impact of unit grants made during the first quarter of 2019.

Incentive Income Compensation

Incentive income compensation expense increased \$57.9 million, or 380.9%, to \$73.1 million for the second quarter of 2019, from \$15.2 million for the second quarter of 2018, primarily reflecting the increase in incentive income.

General and Administrative

General and administrative expense increased \$10.7 million, or 27.2%, to \$50.1 million for the second quarter of 2019, from \$39.4 million for the second quarter of 2018. 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 \$15.5 million, or 46.5%, to \$48.8 million from \$33.3 million, primarily reflecting higher placement fees associated with fundraising activities and costs associated with the Brookfield transaction.

Depreciation and Amortization

Depreciation and amortization expense was \$6.6 million for the second quarter of 2019 and 2018.

Consolidated Fund Expenses

Consolidated fund expenses increased \$1.2 million, or 38.7%, to \$4.3 million for the second quarter of 2019, from \$3.1 million for the second quarter of 2018. The increase reflected higher professional fees and other costs of our consolidated funds.

Other Income (Loss)

Interest Expense

Interest expense increased \$8.5 million, or 23.9%, to \$44.0 million for the second quarter of 2019, from \$35.5 million for the second quarter of 2018. The increase was primarily attributable to our consolidated funds.

Interest and Dividend Income

Interest and dividend income increased \$16.6 million, or 24.4%, to \$84.6 million for the second quarter of 2019, from \$68.0 million for the second quarter of 2018. 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 increased \$17.7 million, to a gain of \$0.4 million for the second quarter of 2019, from a loss of \$17.3 million for the second quarter of 2018. The increase 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 \$32.9 million, to a gain of \$1.8 million for the second quarter of 2019, from a loss of \$31.1 million for the second quarter of 2018. Excluding the impact of the reversal of net realized gain (loss) on consolidated funds' investments, the net change in unrealized appreciation (depreciation) on consolidated funds' investments increased \$50.7 million, to a net gain of \$2.3 million for the second quarter of 2019, from a net loss of \$48.4 million for the second quarter of 2018, reflecting our consolidated funds' performance in each period.

Investment Income

Investment income decreased \$24.1 million, or 42.4%, to \$32.8 million for the second quarter of 2019, from \$56.9 million for the second quarter of 2018. The decrease primarily reflected lower returns on our Credit and Private Equity investments.

Income Taxes

Income taxes decreased \$3.0 million, or 61.2%, to \$1.9 million for the second quarter of 2019, from \$4.9 million for the second quarter of 2018. The decrease primarily reflected a lower effective tax rate for the second quarter of 2019, partially offset by higher pre-tax income attributable to Class A unitholders. The effective tax rates applicable to Class A unitholders for the second quarters of 2019 and 2018 were 2% and 10%, respectively, resulting from full-year effective rates of (1)% and 9%, 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 \$29.6 million, to income of \$22.2 million for the second quarter of 2019, from a loss of \$7.4 million for the second quarter of 2018. The increase reflected our consolidated funds' performance attributable to third-party investors in each period.

Net Income Attributable to Oaktree Capital Group, LLC Class A Unitholders

Net income attributable to Oaktree Capital Group, LLC Class A unitholders increased \$11.3 million, or 36.3%, to \$42.4 million for the second quarter of 2019, from \$31.1 million for the second quarter of 2018, primarily reflecting higher incentive income.

Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

Revenues

Management Fees

Management fees decreased \$18.5 million, or 5.1%, to \$345.0 million for the first six months of 2019, from \$363.5 million for the first six months of 2018. The decrease reflected an aggregate decline of \$53.6 million primarily attributable to unconsolidated closed-end funds in liquidation, partially offset by an aggregate increase of \$35.1 million principally from closed-end funds in their investment periods.

Incentive Income

Incentive income increased \$47.8 million, or 25.5%, to \$234.9 million for the first six months of 2019, from \$187.1 million for the first six months of 2018. The first six months of 2019 included \$163.7 million from Oaktree Opportunities Fund VIII while Oaktree Principal Opportunities Fund IV contributed \$104.8 million of incentive income to the first six months of 2018.

Expenses

Compensation and Benefits

Compensation and benefits expense increased \$9.8 million, or 4.6%, to \$223.6 million for the first six months of 2019, from \$213.8 million for the first six months of 2018, primarily reflecting an increase in average headcount, an unfavorable change in phantom equity expense stemming largely from each period's change in the Class A unit trading price, as well as higher expenses related to employee benefits.

Equity-based Compensation

Equity-based compensation expense increased \$7.1 million, or 23.7% to \$37.0 million for the first six months of 2019, from \$29.9 million for the first six months of 2018, primarily reflecting the impact of unit grants made during the first quarter of 2019.

Incentive Income Compensation

Incentive income compensation expense increased \$25.4 million, or 25.4%, to \$125.4 million for the first six months of 2019, from \$100.0 million for the first six months of 2018, primarily reflecting the increase in incentive income.

General and Administrative

General and administrative expense increased \$25.3 million, or 34.9%, to \$97.7 million for the first six months of 2019, from \$72.4 million for the first six months of 2018. 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 \$26.8 million, or 38.1%, to \$97.0 million from \$70.2 million, primarily reflecting higher placement fees associated with fund raising activities and costs associated with the Brookfield transaction.

Depreciation and Amortization

Depreciation and amortization expense increased \$0.1 million, or 0.8%, to \$13.1 million for the first six months of 2019, from \$13.0 million for the first six months of 2018.

Consolidated Fund Expenses

Consolidated fund expenses decreased \$0.1 million, or 1.5%, to \$6.5 million for the first six months of 2019, from \$6.6 million for the first six months of 2018.

Other Income (Loss)

Interest Expense

Interest expense increased \$13.8 million, or 18.2%, to \$89.8 million for the first six months of 2019, from \$76.0 million for the first six months of 2018. The increase was primarily attributable to our consolidated funds.

Interest and Dividend Income

Interest and dividend income increased \$46.3 million, or 35.5%, to \$176.9 million for the first six months of 2019, from \$130.6 million for the first six months of 2018. 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 \$2.7 million, to a loss of \$5.4 million for the first six months of 2019, from a loss of \$2.7 million for the first six months of 2018. 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 \$104.4 million, to a gain of \$58.9 million for the first six months of 2019, from a loss of \$45.5 million for the first six months of 2018. Excluding the impact of the reversal of net realized gain (loss) on consolidated funds' investments, the net change in unrealized appreciation (depreciation) on consolidated funds' investments increased \$101.8 million, to a net gain of \$53.6 million for the first six months of 2019, from a net loss of \$48.2 million for the first six months of 2018, reflecting our consolidated funds' performance in each period.

Investment Income

Investment income increased \$3.5 million, or 3.8%, to \$95.0 million for the first six months of 2019, from \$91.5 million for the first six months of 2018. The increase primarily reflected higher returns on our Listed Equities investments, partially offset by lower returns on our Credit and Private Equity investments.

Income Taxes

Income taxes decreased \$4.9 million, or 43.4%, to \$6.4 million for the first six months of 2019, from \$11.3 million for the first six months of 2018. The decrease primarily reflected a lower effective tax rate for the first six months of 2019, partially offset by higher pre-tax income attributable to Class A unitholders. The effective tax rates applicable to Class A unitholders for the first six months 2019 and 2018 were 5% and 9%, 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 \$83.0 million, to \$86.4 million for the first six months of 2019, from \$3.4 million for the first six months of 2018. The increase reflected our consolidated funds' performance attributable to third-party investors in each period.

Net Income Attributable to Oaktree Capital Group, LLC Class A Unitholders

Net income attributable to Oaktree Capital Group, LLC Class A unitholders increased \$5.8 million, or 6.9%, to \$89.7 million for the second quarter of 2019, from \$83.9 million for the second quarter of 2018, primarily reflecting higher operating profits.

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”). Examples of such non-GAAP measures are identified in the table below. Such non-GAAP 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,	
	2019	2018	2019	2018
(in thousands, except per unit data or as otherwise indicated)				
Non-GAAP Results: ⁽¹⁾				
Distributable earnings revenues	\$ 378,375	\$ 287,055	\$ 981,069	\$ 764,319
Distributable earnings	138,343	114,286	372,235	308,259
Distributable earnings per Class A unit	0.88	0.69	2.33	1.86
Fee revenues	198,037	195,935	388,138	398,882
Fee-related earnings	44,360	50,875	83,957	109,362
Fee-related earnings per Class A unit	0.28	0.30	0.51	0.66
Weighted Average Units:				
OCGH	85,269	86,007	85,371	87,133
Class A	74,340	71,177	72,994	69,556
Total units	159,609	157,184	158,365	156,689
Operating Metrics:				
<i>Assets under management (in millions):</i>				
Assets under management	\$ 120,368	\$ 121,584	\$ 120,368	\$ 121,584
Management fee-generating assets under management	101,435	100,547	101,435	100,547
Incentive-creating assets under management	36,000	33,291	36,000	33,291
Uncalled capital commitments	18,002	20,325	18,002	20,325
<i>Accrued incentives (fund level):</i>				
Incentives created (fund level)	11,342	119,317	99,334	230,502
Incentives created (fund level), net of associated incentive income compensation expense	9,471	60,921	53,699	113,219
Accrued incentives (fund level)	1,294,866	1,863,932	1,294,866	1,863,932
Accrued incentives (fund level), net of associated incentive income compensation expense	620,495	898,588	620,495	898,588

(1) Beginning with the first quarter of 2019, the Company has determined that distributable earnings is the primary financial measure used by management to make operating decisions and assess the performance of our business. In connection with this determination, the definition of distributable earnings was modified to include the deduction for preferred unit distributions and exclude costs related to the Brookfield transaction. For comparability, prior periods have been recast for this change, as applicable.

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, 2019	March 31, 2019	June 30, 2018
(in millions)			
Assets Under Management:			
Closed-end funds	\$ 55,718	\$ 55,083	\$ 56,294
Open-end funds	27,359	28,420	32,824
Evergreen funds	9,284	9,140	8,426
DoubleLine ⁽¹⁾	28,007	25,966	24,040
Total	\$ 120,368	\$ 118,609	\$ 121,584

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in millions)				
Change in Assets Under Management:				
Beginning balance	\$ 118,609	\$ 121,394	\$ 119,560	\$ 123,930
Closed-end funds:				
Capital commitments/other ⁽²⁾	3,698	2,410	3,967	3,063
Distributions for a realization event/other ⁽³⁾	(2,542)	(1,901)	(4,330)	(4,083)
Change in uncalled capital commitments for funds entering or in liquidation ⁽⁴⁾	158	74	(641)	(232)
Foreign-currency translation	120	(444)	(27)	(225)
Change in market value ⁽⁵⁾	358	525	981	956
Change in applicable leverage	(1,157)	(52)	(1,338)	(56)
Open-end funds:				
Contributions	495	724	1,537	1,615
Redemptions	(2,188)	(1,056)	(6,576)	(3,691)
Foreign-currency translation	(1)	(373)	(20)	(192)
Change in market value ⁽⁵⁾	633	(174)	2,637	(349)
Evergreen funds:				
Contributions or new capital commitments ⁽⁶⁾	130	140	390	503
Redemptions or distributions ⁽⁷⁾	(77)	(270)	(193)	(431)
Foreign-currency translation	—	2	—	(1)
Change in market value ⁽⁵⁾	91	327	529	439
DoubleLine:				
Net change in DoubleLine	2,041	258	3,892	338
Ending balance	\$ 120,368	\$ 121,584	\$ 120,368	\$ 121,584

(1) DoubleLine AUM reflects our pro-rata portion (based on our 20% ownership stake) of DoubleLine's total AUM.

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

(3) These amounts include 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.

(4) The change in uncalled capital commitments generally 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.

- (5) 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 and other levered funds.
- (6) These amounts include contributions and capital commitments, and for our publicly-traded BDCs, issuances of equity or debt capital.
- (7) These amounts include redemptions and distributions, and for our publicly-traded BDCs, dividends, repurchases of equity capital or repayment of debt.

Management Fee-generating AUM

	As of		
	June 30, 2019	March 31, 2019	June 30, 2018
	(in millions)		
Management Fee-generating AUM:			
Closed-end funds:			
Senior Loans	\$ 7,525	\$ 8,179	\$ 7,896
Other closed-end funds	30,440	29,792	28,754
Open-end funds	27,106	28,152	32,520
Evergreen funds	8,357	8,175	7,337
DoubleLine	28,007	25,966	24,040
Total	<u>\$ 101,435</u>	<u>\$ 100,264</u>	<u>\$ 100,547</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in millions)			
Change in Management Fee-generating AUM:				
Beginning balance	\$ 100,264	\$ 102,043	\$ 98,108	\$ 104,287
Closed-end funds:				
Capital commitments to funds that pay fees based on committed capital/other ⁽¹⁾	2,067	—	3,335	—
Capital drawn by funds that pay fees based on drawn capital, NAV or cost basis	514	385	1,093	944
Change attributable to funds in liquidation ⁽²⁾	(725)	(981)	(1,226)	(2,576)
Change in uncalled capital commitments for funds entering or in liquidation that pay fees based on committed capital ⁽³⁾	—	—	—	—
Distributions by funds that pay fees based on NAV / other ⁽⁴⁾ ..	(921)	(161)	(1,013)	(354)
Foreign-currency translation	103	(380)	(17)	(206)
Change in market value ⁽⁵⁾	70	(1)	146	52
Change in applicable leverage	(1,114)	(50)	(1,288)	(55)
Open-end funds:				
Contributions	493	674	1,535	1,564
Redemptions	(2,166)	(1,056)	(6,528)	(3,691)
Foreign-currency translation	—	(373)	(19)	(192)
Change in market value	627	(173)	2,615	(349)
Evergreen funds:				
Contributions or capital drawn by funds that pay fees based on drawn capital or NAV ⁽⁶⁾	199	227	449	697
Redemptions or distributions ⁽⁷⁾	(98)	(205)	(196)	(352)
Change in market value ⁽⁵⁾	81	340	549	440
DoubleLine:				
Net change in DoubleLine	2,041	258	3,892	338
Ending balance	<u>\$ 101,435</u>	<u>\$ 100,547</u>	<u>\$ 101,435</u>	<u>\$ 100,547</u>

- (1) These amounts include 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 include 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 include 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 and other levered funds.
- (6) These amounts include contributions and capital commitments, and for our publicly-traded BDCs, issuances of equity or debt capital.
- (7) These amounts include redemptions and distributions, and for our publicly-traded BDCs, dividends, repurchases of equity capital or repayment of debt.

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

	As of		
	June 30, 2019	March 31, 2019	June 30, 2018
Reconciliation of AUM to Management Fee-generating AUM:			
Assets under management	\$ 120,368	\$ 118,609	\$ 121,584
Difference between assets under management and committed capital or the lesser of funded capital or cost basis for applicable closed-end funds ⁽¹⁾	(1,601)	(1,826)	(2,326)
Undrawn capital commitments to closed-end funds that have not yet commenced their investment periods	(9,133)	(8,532)	(10,092)
Undrawn capital commitments to funds for which management fees are based on drawn capital, NAV or cost basis	(4,081)	(4,075)	(4,042)
Oaktree's general partner investments in management fee-generating funds	(1,598)	(1,535)	(1,724)
Funds that pay no management fees ⁽²⁾	(2,520)	(2,377)	(2,853)
Management fee-generating assets under management	<u>\$ 101,435</u>	<u>\$ 100,264</u>	<u>\$ 100,547</u>

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

(2) This includes funds that are no longer paying management fees, co-investments that pay no management fees, certain accounts that pay administrative fees intended to offset Oaktree's costs related to the accounts and CLOs in the warehouse stage that pay no management fees.

The period-end weighted average annual management fee rates applicable to the closed-end, open-end and evergreen management fee-generating AUM balances above are set forth below.

	As of		
	June 30, 2019	March 31, 2019	June 30, 2018
Weighted Average Annual Management Fee Rates:			
Closed-end funds:			
Senior Loans	0.47%	0.49%	0.50%
Other closed-end funds	1.41	1.43	1.47
Open-end funds	0.45	0.45	0.45
Evergreen funds ⁽¹⁾	1.17	1.17	1.20
All Oaktree funds ⁽²⁾	0.93	0.93	0.91

(1) Fee rates reflect the applicable asset-based management fee rates, exclusive of quarterly incentive fees on investment income that are included in management fees.

(2) Excludes DoubleLine funds.

Incentive-creating AUM

Incentive-creating AUM is set forth below. The portion of incentive-creating AUM generating incentives at the fund level was \$22.8 billion as of June 30, 2019, \$19.5 billion as of December 31, 2018 and \$21.0 billion as of June 30, 2018. Incentive-creating AUM does not include undrawn capital commitments.

	As of		
	June 30, 2019	March 31, 2019	June 30, 2018
Incentive-creating AUM:		(in millions)	
Closed-end funds	\$ 28,521	\$ 27,174	\$ 26,677
Evergreen funds	6,822	6,633	6,006
DoubleLine	657	606	608
Total	<u>\$ 36,000</u>	<u>\$ 34,413</u>	<u>\$ 33,291</u>

Second Quarter Ended June 30, 2019

AUM increased \$1.8 billion, or 1.5%, to \$120.4 billion as of June 30, 2019, from \$118.6 billion as of March 31, 2019. The increase primarily reflected \$3.7 billion of capital commitments to closed-end funds and \$2.0 billion attributable to DoubleLine, partially offset by \$2.5 billion of distributions to closed-end fund investors and \$1.7 billion of net outflows from open-end funds. Commitments to closed-end funds included \$1.4 billion for CLOs, \$1.0 billion for the Highstar III Successor Funds ("HS III"), and \$0.5 billion for Oaktree Special Situations Fund II ("SS II").

Management fee-generating AUM, a forward-looking metric, increased \$1.1 billion, or 1.1%, to \$101.4 billion as of June 30, 2019, from \$100.3 billion as of March 31, 2019. The increase primarily reflected \$2.1 billion from new CLOs and HS III, \$2.0 billion attributable to DoubleLine, \$0.8 billion in market-value gains, partially offset by \$1.7 billion of net outflows from open-end funds, \$1.1 billion change in applicable leverage, and \$0.7 billion attributable to closed-end funds in liquidation.

Incentive-creating AUM increased \$1.6 billion, or 4.7%, to \$36.0 billion as of June 30, 2019, from \$34.4 billion as of March 31, 2019. The increase reflected an aggregate increase of \$3.3 billion primarily attributable to drawdowns, contributions and market-value gains, partially offset by an aggregate \$1.7 billion of distributions.

Second Quarter Ended June 30, 2018

AUM increased \$0.2 billion, or 0.2%, to \$121.6 billion as of June 30, 2018, from \$121.4 billion as of March 31, 2018. The increase primarily reflected \$2.4 billion in new capital commitments to closed-end funds, \$0.7 billion in market-value gains and \$0.3 billion attributable to DoubleLine, largely offset by \$1.9 billion of distributions to closed-end fund investors, \$0.8 billion in unfavorable foreign-currency translation and \$0.3 billion of net outflows from open-end funds. Commitments to closed-end funds included \$1.1 billion for Oaktree Transportation Infrastructure Fund ("TIF") and \$0.7 billion for SS II.

Management fee-generating AUM, a forward-looking metric, decreased \$1.5 billion, or 1.5%, to \$100.5 billion as of June 30, 2018, from \$102.0 billion as of March 31, 2018. The decrease primarily reflected \$1.0 billion attributable to closed-end funds in liquidation, \$0.8 billion in unfavorable foreign-currency translation and \$0.4 billion of net outflows from open-end funds, partially offset by \$0.4 billion from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis and \$0.3 billion attributable to DoubleLine.

Incentive-creating AUM increased \$0.3 billion, or 0.9%, to \$33.3 billion as of June 30, 2018, from \$33.0 billion as of March 31, 2018. The increase reflected an aggregate \$2.3 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains, partially offset by an aggregate \$2.0 billion decline primarily attributable to distributions by closed-end funds.

Six Months Ended June 30, 2019

AUM increased \$0.8 billion, or 0.7%, to \$120.4 billion as of June 30, 2019, from \$119.6 billion as of December 31, 2018. The increase primarily reflected \$4.1 billion in market-value gains, \$4.0 billion of capital commitments to closed-end funds and \$3.9 billion attributable to DoubleLine, partially offset by \$5.0 billion of net

outflows from open-end funds and \$5.0 billion of distributions to closed-end fund investors and uncalled capital commitments.

Management fee-generating AUM, a forward-looking metric, increased \$3.3 billion, or 3.4%, to \$101.4 billion as of June 30, 2019, from \$98.1 billion as of December 31, 2018. The increase primarily reflected \$3.9 billion attributable to DoubleLine, \$3.3 billion in market-value gains, \$3.3 billion for new CLOs, HS III and Oaktree Power Opportunities Fund V and \$1.1 billion from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, partially offset by \$5.0 billion of net outflows from open-end funds and \$1.2 billion attributable to closed-end funds in liquidation.

Incentive-creating AUM increased \$1.4 billion, or 4.0%, to \$36.0 billion as of June 30, 2019, from \$34.6 billion as of December 31, 2018. The increase reflected an aggregate \$4.7 billion in drawdowns, contributions and market-value gains, partially offset by an aggregate decline of \$3.3 billion primarily attributable to distributions.

Six Months Ended June 30, 2018

AUM decreased \$2.3 billion, or 1.9%, to \$121.6 billion as of June 30, 2018, from \$123.9 billion as of December 31, 2017. The decrease primarily reflected \$4.1 billion of distributions to closed-end fund investors and \$2.1 billion of net outflows from open-end funds, partially offset by \$3.1 billion in new capital commitments to closed-end funds, \$1.0 billion in market-value gains and \$0.3 billion attributable to DoubleLine. Commitments to closed-end funds included \$1.1 billion for TIF, \$0.7 billion for SSF II and \$0.6 billion to Oaktree Real Estate Debt Fund II.

Management fee-generating AUM, a forward-looking metric, decreased \$3.8 billion, or 3.6%, to \$100.5 billion as of June 30, 2018, from \$104.3 billion as of December 31, 2017. The decrease primarily reflected \$2.6 billion attributable to closed-end funds in liquidation, \$2.1 billion of net outflows from open-end funds and \$0.4 billion of unfavorable foreign-currency translation, partially offset by \$0.9 billion from capital drawn by closed-end funds that pay fees based on drawn capital, NAV or cost basis, \$0.3 billion of net capital inflows to evergreen funds and \$0.3 billion attributable to DoubleLine.

Incentive-creating AUM was unchanged at \$33.3 billion as of both June 30, 2018 and December 31, 2017. The first six months of 2018 reflected an aggregate \$4.3 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains, offset by an aggregate \$4.3 billion decline primarily attributable to distributions by closed-end funds.

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,	
	2019	2018	2019	2018
(in thousands)				
Accrued Incentives (Fund Level):				
Beginning balance	\$ 1,424,904	\$ 1,795,967	\$ 1,722,120	\$ 1,920,339
Incentives created (fund level):				
Closed-end funds	(2,461)	102,850	57,098	200,156
Evergreen funds	12,303	16,367	38,685	30,246
DoubleLine	1,500	100	3,551	100
Total incentives created (fund level)	11,342	119,317	99,334	230,502
Less: incentive income recognized by us	(141,380)	(51,352)	(526,588)	(286,909)
Ending balance	\$ 1,294,866	\$ 1,863,932	\$ 1,294,866	\$ 1,863,932
Accrued incentives (fund level), net of associated incentive income compensation expense	\$ 620,495	\$ 898,588	\$ 620,495	\$ 898,588

As of June 30, 2019 and 2018, the portion of net accrued incentives (fund level) represented by funds that were currently paying incentives was \$145.6 million (or 23%) and \$214.6 million (24%), 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, 2019, \$508.4 million, or 82%, of the net accrued incentives (fund level) was in evergreen or closed-end funds in their liquidation period, and approximately 14% of the assets underlying total net accrued incentives (fund level) were Level I or Level II securities. Please see note 2 for a discussion of the fair-value hierarchy level established by GAAP.

Second Quarters Ended June 30, 2019 and 2018

Incentives created (fund level) was \$11.3 million for the second quarter of 2019, primarily reflecting \$21.1 million of incentives created (fund level) from Real Estate funds and \$14.8 million from Credit funds, partially offset by \$28.2 million of negative incentives created (fund level) from Private Equity funds.

Incentives created (fund level) was \$119.3 million for the second quarter of 2018, primarily reflecting \$80.4 million of incentives created (fund level) from Credit funds, \$25.4 million from Real Assets funds and \$14.0 million from Private Equity funds.

Six Months Ended June 30, 2019 and 2018

Incentives created (fund level) was \$99.3 million for the first six months of 2019, primarily reflecting \$67.1 million of incentives created (fund level) from Credit funds and \$54.1 million from Real Asset funds, partially offset by \$34.3 million of negative incentives created (fund level) from Private Equity funds.

Incentives created (fund level) was \$230.5 million for the first six months of 2018, primarily reflecting \$135.9 million of incentives created (fund level) from Credit funds, \$51.2 million from Private Equity funds and \$43.6 million from Real Asset funds.

Uncalled Capital Commitments

As of June 30, 2019, March 31, 2019, and June 30, 2018, uncalled capital commitments were \$18.0 billion, \$18.3 billion and \$20.3 billion, respectively. Invested capital during the quarter and 12 months ended June 30, 2019 aggregated \$2.5 billion and \$11.2 billion, respectively, as compared with \$1.9 billion and \$7.9 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 distributable earnings and fee-related earnings, each for both the Operating Group and per Class A unit. 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.”

Distributable Earnings

The following schedules set forth the components of distributable earnings:

Distributable Earnings Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Revenues:				
Management fees	\$ 198,037	\$ 195,935	\$ 388,138	\$ 398,882
Incentive income	141,380	51,352	526,588	286,909
Realized investment income proceeds	38,958	39,768	66,343	78,528
Total distributable earnings revenues	<u>\$ 378,375</u>	<u>\$ 287,055</u>	<u>\$ 981,069</u>	<u>\$ 764,319</u>

Adjusted Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Expenses:				
Compensation and benefits	\$ (108,262)	\$ (103,642)	\$ (221,457)	\$ (208,412)
Incentive income compensation	(73,887)	(20,984)	(281,588)	(151,426)
General and administrative	(43,044)	(39,108)	(77,984)	(76,545)
Depreciation and amortization	(2,371)	(2,310)	(4,740)	(4,563)
Total adjusted expenses	<u>\$ (227,564)</u>	<u>\$ (166,044)</u>	<u>\$ (585,769)</u>	<u>\$ (440,946)</u>

Distributable Earnings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Interest expense, net of interest income ⁽¹⁾	\$ (643)	\$ (2,399)	\$ (1,552)	\$ (5,809)
Preferred unit distributions	(6,829)	—	(13,658)	—
Operating Group income taxes	(1,904)	(2,140)	(2,433)	(4,886)
Other income (expense), net	(3,092)	(2,186)	(5,422)	(4,419)
Distributable earnings ⁽²⁾	<u>\$ 138,343</u>	<u>\$ 114,286</u>	<u>\$ 372,235</u>	<u>\$ 308,259</u>

(1) Interest income was \$5.5 million and \$10.8 million for the three and six months ended June 30, 2019, respectively, and \$3.6 million and \$6.0 million for the three and six months ended June 30, 2018, respectively.

(2) Reflects the sum of total distributable earnings revenues, adjusted expenses, net interest expense, preferred unit distributions, Operating Group income taxes and other income (expense).

Second Quarter Ended June 30, 2019 Compared to the Second Quarter Ended June 30, 2018

Distributable Earnings Revenues

Management Fees

A summary of management fees is set forth below:

	Three Months Ended June 30,	
	2019	2018
	(in thousands)	
Management fees:		
Closed-end funds	\$ 118,561	\$ 116,776
Open-end funds	30,140	37,086
Evergreen funds	31,136	24,573
DoubleLine	18,200	17,500
Total management fees	<u>\$ 198,037</u>	<u>\$ 195,935</u>

Management fees increased \$2.1 million, or 1.1%, to \$198.0 million for the second quarter of 2019, from \$195.9 million for the first quarter of 2018, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds increased \$1.8 million, or 1.5%, to \$118.6 million for the second quarter of 2019, from \$116.8 million for the second quarter of 2018. The increase reflected an aggregate increase of \$21.4 million principally from closed-end funds in their investment periods, partially offset by an aggregate decline of \$19.6 million primarily attributable to closed-end funds in liquidation.
- *Open-end funds.* Management fees attributable to open-end funds decreased \$7.0 million, or 18.9%, to \$30.1 million for the second quarter of 2019, from \$37.1 million for the second quarter of 2018. The decrease was primarily attributable to net outflows.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$6.5 million, or 26.4%, to \$31.1 million for the second quarter of 2019, from \$24.6 million for the second quarter of 2018, primarily reflecting market-value gains and contributions.
- *DoubleLine.* Management fees attributable to DoubleLine increased \$0.7 million, or 4.0%, to \$18.2 million for the second quarter of 2019, from \$17.5 million for the second quarter of 2018, primarily driven by AUM growth.

Incentive Income

A summary of incentive income is set forth below:

	Three Months Ended June 30,	
	2019	2018
	(in thousands)	
Incentive Income:		
Closed-end funds	\$ 137,462	\$ 47,945
Evergreen funds	2,418	3,307
DoubleLine	1,500	100
Total	<u>\$ 141,380</u>	<u>\$ 51,352</u>

Incentive income increased \$90.0 million, or 175.1%, to \$141.4 million for the second quarter of 2019, from \$51.4 million for the second quarter of 2018. The second quarter of 2019 included \$118.7 million from Oaktree Opportunities Fund VIII.

Realized Investment Income Proceeds

A summary of realized investment income proceeds is set forth below:

	Three Months Ended June 30,	
	2019	2018
	(in thousands)	
Oaktree funds:		
Credit	\$ 27,412	\$ 12,569
Private Equity	(1,390)	8,935
Real Assets	3,662	2,486
Listed Equities	3,516	—
Non-Oaktree	5,758	15,778
Total realized investment income proceeds	<u>\$ 38,958</u>	<u>\$ 39,768</u>

Realized investment income proceeds decreased \$0.8 million, or 2.0%, to \$39.0 million for the second quarter of 2019, from \$39.8 million for the second quarter of 2018, primarily reflecting lower proceeds from our Private Equity and non-Oaktree investments, largely offset by higher proceeds from our Credit investments.

Adjusted Expenses

Compensation and Benefits

Compensation and benefits expense increased \$4.7 million, or 4.5%, to \$108.3 million for the second quarter of 2019, from \$103.6 million for the second quarter of 2018, primarily driven by growth in headcount.

Incentive Income Compensation

Incentive income compensation expense increased \$52.9 million, or 251.9%, to \$73.9 million for the second quarter of 2019, from \$21.0 million for the second quarter of 2018, reflecting the growth in incentive income.

General and Administrative

General and administrative expense increased \$3.9 million, or 10.0%, to \$43.0 million for the second quarter of 2019, from \$39.1 million for the second quarter of 2018, primarily reflecting higher placement fees associated with fundraising activities.

Depreciation and Amortization

Depreciation and amortization expense increased \$0.1 million, or 4.3%, to \$2.4 million for the second quarter of 2019, from \$2.3 million for the second quarter of 2018.

Interest Expense, Net

Interest expense, net decreased \$1.8 million, or 75.0%, to \$0.6 million for the second quarter of 2019, from \$2.4 million for the second quarter of 2018. The decrease was primarily driven by higher interest income.

Preferred Unit Distributions

The second quarter of 2019 included Series A and Series B preferred unit distributions of \$6.8 million in the aggregate, as compared with \$0 for the second quarter of 2018, reflecting the issuances of our Series A and Series B preferred units in the second and third quarters of 2018, respectively.

Distributable Earnings

Distributable earnings increased \$24.0 million, or 21.0%, to \$138.3 million for the second quarter of 2019, from \$114.3 million for the second quarter of 2018. The increase reflected \$37.1 million in higher net incentive income, partially offset by \$6.8 million in higher preferred unit distributions and \$6.5 million in lower fee-related earnings. The portion of distributable earnings attributable to our Class A units was \$0.88 and \$0.69 per unit for the second quarters of 2019 and 2018, respectively, reflecting distributable earnings per Operating Group unit of \$0.87 and \$0.73, respectively, less costs borne by Class A unitholders for professional fees and other expenses, cash

taxes attributable to the Intermediate Holding Companies, and amounts payable pursuant to the tax receivable agreement.

Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

Distributable Earnings Revenues

Management Fees

A summary of management fees is set forth below:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Management fees:		
Closed-end funds	\$ 231,611	\$ 238,482
Open-end funds	62,892	75,198
Evergreen funds	60,375	49,489
DoubleLine	33,260	35,713
Total management fees	<u>\$ 388,138</u>	<u>\$ 398,882</u>

Management fees decreased \$10.8 million, or 2.7%, to \$388.1 million for the first six months of 2019, from \$398.9 million for the first six months of 2018, for the reasons described below.

- *Closed-end funds.* Management fees attributable to closed-end funds decreased \$6.9 million, or 2.9%, to \$231.6 million for the first six months of 2019, from \$238.5 million for the first six months of 2018. The decrease reflected an aggregate decline of \$42.1 million primarily attributable to closed-end funds in liquidation, partially offset by an aggregate increase of \$35.2 million principally from closed-end funds in their investment periods,
- *Open-end funds.* Management fees attributable to open-end funds decreased \$12.3 million, or 16.4%, to \$62.9 million for the first six months of 2019, from \$75.2 million for the first six months of 2018. The decrease was primarily attributable to net outflows.
- *Evergreen funds.* Management fees attributable to evergreen funds increased \$10.9 million, or 22.0%, to \$60.4 million for the first six months of 2019, from \$49.5 million for the first six months of 2018, primarily reflecting market-value gains and contributions.
- *DoubleLine.* Management fees attributable to DoubleLine decreased \$2.4 million, or 6.7%, to \$33.3 million for the first six months of 2019, from \$35.7 million for the first six months of 2018, primarily reflecting higher expenses.

Incentive Income

A summary of incentive income is set forth below:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Incentive Income:		
Closed-end funds	\$ 519,699	\$ 283,453
Evergreen funds	3,338	3,356
DoubleLine	3,551	100
Total	<u>\$ 526,588</u>	<u>\$ 286,909</u>

Incentive income increased \$239.7 million, or 83.5%, to \$526.6 million for the first six months of 2019, from \$286.9 million for the first six months of 2018. The 2019 period included regular and tax-related incentive income of \$224.8 million and \$301.8 million, respectively, as compared to \$183.2 million and \$103.7 million in the 2018 period, respectively.

Realized Investment Income Proceeds

A summary of realized investment income proceeds is set forth below:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Oaktree funds:		
Credit	\$ 43,960	\$ 28,241
Private Equity	(1,110)	19,895
Real Assets	7,580	8,268
Listed Equities	7,798	5,551
Non-Oaktree	8,115	16,573
Total realized investment income proceeds	<u>\$ 66,343</u>	<u>\$ 78,528</u>

Realized investment income proceeds decreased \$12.2 million, or 15.5%, to \$66.3 million for the first six months of 2019, from \$78.5 million for the first six months of 2018, primarily reflecting lower proceeds from our Private Equity and non-Oaktree investments, largely offset by higher proceeds from our Credit investments.

Adjusted Expenses

Compensation and Benefits

Compensation and benefits expense increased \$13.1 million, or 6.3%, to \$221.5 million for the first six months of 2019, from \$208.4 million for the first six months of 2018, primarily reflecting an increase in average headcount, an unfavorable change in phantom equity expense stemming largely from each period's change in the Class A unit trading price, and higher expenses related to employee benefits.

Incentive Income Compensation

Incentive income compensation expense increased \$130.2 million, or 86.0%, to \$281.6 million for the first six months of 2019, from \$151.4 million for the first six months of 2018, reflecting the growth in incentive income.

General and Administrative

General and administrative expense increased \$1.5 million, or 2.0%, to \$78.0 million for the first six months of 2019, from \$76.5 million for the first six months of 2018, primarily reflecting higher placement fees associated with fundraising activities, offset by lower other general operating expenses.

Depreciation and Amortization

Depreciation and amortization expense increased \$0.1 million, or 2.2%, to \$4.7 million for the first six months of 2019, from \$4.6 million for the first six months of 2018.

Interest Expense, Net

Interest expense, net decreased \$4.2 million, or 72.4%, to \$1.6 million for the first six months of 2019, from \$5.8 million for the first six months of 2018. The decrease was primarily driven by higher interest income.

Preferred Unit Distributions

The first six months of 2019 included Series A and Series B preferred unit distributions of \$13.7 million in the aggregate, as compared with \$0 for the first six months of 2018, reflecting the issuances of our Series A and Series B preferred units in the second and third quarters of 2018, respectively.

Distributable Earnings

Distributable earnings increased \$63.9 million, or 20.7%, to \$372.2 million for the first six months of 2019, from \$308.3 million for the first six months of 2018. The increase reflected \$109.5 million in higher net incentive income, partially offset by \$25.4 million in lower fee-related earnings and \$12.2 million in lower realized investment income proceeds. The portion of distributable earnings attributable to our Class A units was \$2.33 and \$1.86 per

unit for the first six months of 2019 and 2018, respectively, reflecting distributable earnings per Operating Group unit of \$2.35 and \$1.97, respectively, less costs borne by Class A unitholders.

Fee-related Earnings

Second Quarter Ended June 30, 2019 Compared to the Second Quarter Ended June 30, 2018

Fee-related earnings decreased \$6.5 million, or 12.8%, to \$44.4 million for the second quarter of 2019, from \$50.9 million for the second quarter of 2018, primarily reflecting \$4.7 million in higher compensation and benefits expense and \$3.9 million in higher general and administrative expense, partially offset by an increase of \$2.1 million in management fees.

The effective tax rates applicable to fee-related earnings for the second quarters of 2019 and 2018 were (1)% and 5%, respectively, resulting from full-year effective tax rates of 2% and 6%, respectively. 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, 2019 Compared to the Six Months Ended June 30, 2018

Fee-related earnings decreased \$25.4 million, or 23.2%, to \$84.0 million for the first six months of 2019, from \$109.4 million for the first six months of 2018, primarily reflecting \$13.1 million in higher compensation and benefits expense and \$10.8 million in lower management fees.

The effective tax rates applicable to fee-related earnings for the first six months of 2019 and 2018 were 2% and 5%, respectively.

Reconciliation of GAAP to Non-GAAP Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income attributable to OCG Class A unitholders	\$ 42,444	\$ 31,121	\$ 89,698	\$ 83,853
Incentive income ⁽¹⁾	1,500	16,065	288,176	99,646
Incentive income compensation ⁽¹⁾	(765)	(5,766)	(156,166)	(51,393)
Investment income	(23,068)	(19,632)	(90,967)	(42,771)
Realized investment income proceeds ⁽²⁾	38,958	39,768	66,343	78,528
Equity-based compensation ⁽³⁾	22,648	15,246	36,977	29,867
Foreign-currency hedging ⁽⁴⁾	1,482	(741)	109	(2,863)
Acquisition-related items ⁽⁵⁾	8,881	(2,834)	25,702	(1,260)
Other expense, net ⁽⁶⁾	(2,745)	(2,745)	(5,490)	(5,490)
Income taxes	(52)	2,727	3,917	6,378
Non-Operating Group (income) expenses ⁽⁷⁾	210	328	158	308
Non-controlling interests ⁽⁷⁾	48,850	40,749	113,778	113,456
Distributable earnings ⁽⁸⁾	138,343	114,286	372,235	308,259
Incentive income	(141,380)	(51,352)	(526,588)	(286,909)
Incentive income compensation	73,887	20,984	281,588	151,426
Realized investment income proceeds	(38,958)	(39,768)	(66,343)	(78,528)
Interest expense, net of interest income	643	2,399	1,552	5,809
Preferred unit distributions	6,829	—	13,658	—
Other expense, net	3,092	2,186	5,422	4,419
Operating Group income taxes	1,904	2,140	2,433	4,886
Fee-related earnings ⁽⁸⁾	\$ 44,360	\$ 50,875	\$ 83,957	\$ 109,362

- (1) This adjustment relates to unrealized incentive income which is excluded from distributable earnings revenues and incentive income compensation expense.
- (2) This adjustment reflects the portion of distributions received from funds characterized as realized 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.
- (3) This adjustment adds back the effect of equity-based compensation expense, which is excluded from distributable earnings because it is a non-cash charge that does not affect our financial position.
- (4) This adjustment removes the effect of unrealized gains and losses related to foreign-currency hedging activities.
- (5) This adjustment adds back the effect of acquisition-related items associated with the amortization of intangibles, changes in the contingent consideration liability and costs related to the Brookfield transaction, which are excluded from distributable earnings.
- (6) For distributable earnings, the \$22 million make-whole premium charge that was included in net income attributable to OCG Class A unitholders in the fourth quarter of 2017 in connection with the early repayment of our 2019 Notes is amortized through the original maturity date of December 2019.
- (7) Because distributable earnings is 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) Per Class A unit amounts are calculated to evaluate the portion of distributable earnings and fee-related earnings attributable to Class A unitholders. Reconciliations of distributable earnings to distributable earnings per Class A unit and fee-related earnings to fee-related earnings per Class A unit are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, except per unit data)			
Distributable earnings	\$ 138,343	\$ 114,286	\$ 372,235	\$ 308,259
OCGH non-controlling interest	(73,908)	(62,534)	(201,157)	(172,158)
Non-Operating Group income (expense)	(210)	(328)	(158)	(308)
Distributable earnings-Class A income taxes	5,152	1,973	6,851	1,640
Tax receivable agreement	(3,829)	(4,008)	(7,654)	(7,866)
Distributable earnings-Class A	<u>\$ 65,548</u>	<u>\$ 49,389</u>	<u>\$ 170,117</u>	<u>\$ 129,567</u>
Distributable earnings per Class A unit	<u>\$ 0.88</u>	<u>\$ 0.69</u>	<u>\$ 2.33</u>	<u>\$ 1.86</u>
Weighted average number of Class A units outstanding	<u>74,340</u>	<u>71,177</u>	<u>72,994</u>	<u>69,556</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands, except per unit data)			
Fee-related earnings	\$ 44,360	\$ 50,875	\$ 83,957	\$ 109,362
OCGH non-controlling interest	(23,700)	(27,837)	(45,243)	(60,891)
Non-Operating Group expense	(475)	(538)	(670)	(745)
Fee-related earnings-Class A income taxes	265	(1,197)	(734)	(2,154)
Fee-related earnings-Class A	<u>\$ 20,450</u>	<u>\$ 21,303</u>	<u>\$ 37,310</u>	<u>\$ 45,572</u>
Fee-related earnings per unit	<u>\$ 0.28</u>	<u>\$ 0.30</u>	<u>\$ 0.51</u>	<u>\$ 0.66</u>
Weighted average number of total units outstanding	<u>74,340</u>	<u>71,177</u>	<u>72,994</u>	<u>69,556</u>

The following table reconciles GAAP revenues to distributable earnings revenues and fee-related earnings revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
GAAP revenues	\$ 313,483	\$ 213,283	\$ 579,898	\$ 550,604
Consolidated funds ⁽¹⁾	4,734	339	9,841	(272)
Management fees ⁽²⁾	18,200	17,500	33,260	35,713
Incentive income ⁽³⁾	3,000	16,165	291,727	99,746
Realized investment income proceeds	38,958	39,768	66,343	78,528
Distributable earnings revenues	<u>378,375</u>	<u>287,055</u>	<u>981,069</u>	<u>764,319</u>
Incentive income	(141,380)	(51,352)	(526,588)	(286,909)
Realized investment income proceeds	(38,958)	(39,768)	(66,343)	(78,528)
Fee revenues	<u>\$ 198,037</u>	<u>\$ 195,935</u>	<u>\$ 388,138</u>	<u>\$ 398,882</u>

- (1) This adjustment represents amounts attributable to the consolidated funds that were eliminated in consolidation, the reclassification of gains and losses related to foreign-currency hedging activities from general and administrative expense to revenues, the elimination of non-controlling interests from adjusted revenues, and certain compensation and administrative related expense reimbursements netted with expenses.
- (2) This adjustment reclassifies the portion of the earnings from the management fees attributable to our 20% ownership interest in DoubleLine, which is included in consolidated investment income in our GAAP statements of operations to revenues.
- (3) This adjustment relates to unrealized incentive income which is excluded from distributable earnings revenues and reclassifies the portion of the earnings from the performance fees attributable to our 20% ownership interest in DoubleLine, which is included in consolidated investment income in our GAAP statements of operations to revenues.

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

	For the Three Months Ended June 30, 2019		
	Consolidated	Adjustments (in thousands)	Distributable Earnings
Management fees ⁽¹⁾	\$ 175,103	\$ 22,934	\$ 198,037
Incentive income ⁽¹⁾	138,380	3,000	141,380
Realized investment income proceeds ⁽²⁾	—	38,958	38,958
Total expenses ⁽³⁾	(265,888)	38,324	(227,564)
Interest expense, net ⁽⁴⁾	(43,995)	43,352	(643)
Investment income ⁽²⁾	32,835	(32,835)	—
Other income (expense), net ⁽⁵⁾	36	(3,128)	(3,092)
Other income of consolidated funds ⁽⁶⁾	86,909	(86,909)	—
Income taxes	(1,852)	(52)	(1,904)
Net income attributable to non-controlling interests in consolidated funds	(22,240)	22,240	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(50,015)	50,015	—
Net income attributable to preferred unitholders	(6,829)	—	(6,829)
Net income attributable to OCG Class A unitholders / Distributable earnings	<u>\$ 42,444</u>	<u>\$ 95,899</u>	<u>\$ 138,343</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$18,200 to management fees and \$1,500 to incentive income, (c) for management fees, reclassifies \$639 of net gains related to foreign-currency hedging activities from general and administrative expense and \$2,496 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for distributable earnings, and (d) adds back the effect of \$1,500 related to unrealized incentive income.
- (2) Distributable earnings excludes investment income or loss and includes the portion of income or loss on distributions received from funds and companies.
- (3) The expense adjustment consists of (a) equity-based compensation expense of \$22,648, (b) consolidated fund expenses of \$3,363, (c) expenses incurred by the Intermediate Holding Companies of \$475, (d) incentive income compensation expense related to unrealized incentive income of \$765, (e) \$5,028 of acquisition-related items, (f) \$3,853 related to the Brookfield transaction, (g) \$1,226 of net gains related to foreign-currency hedging activities, and (h) \$2,496 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for distributable earnings.
- (4) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (5) The adjustment to other income (expense), net represents adjustments related to (a) the reclassification of \$383 in net losses related to foreign-currency hedging activities from general and administrative expense and the amortization of make-whole premium expenses.
- (6) 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 interest income to interest expense, net.

For the Three Months Ended June 30, 2018

	Consolidated	Adjustments (in thousands)	Distributable Earnings
Management fees ⁽¹⁾	\$ 178,096	\$ 17,839	\$ 195,935
Incentive income ⁽¹⁾	35,187	16,165	51,352
Realized investment income proceeds ⁽²⁾	—	39,768	39,768
Total expenses ⁽³⁾	(184,606)	18,562	(166,044)
Interest expense, net ⁽⁴⁾	(35,469)	33,070	(2,399)
Investment income ⁽²⁾	56,923	(56,923)	—
Other income (expense), net ⁽⁵⁾	914	(3,100)	(2,186)
Other income of consolidated funds ⁽⁶⁾	19,579	(19,579)	—
Income taxes	(4,867)	2,727	(2,140)
Net income attributable to non-controlling interests in consolidated funds	7,360	(7,360)	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(41,996)	41,996	—
Net income attributable to OCG Class A unitholders / Distributable earnings	<u>\$ 31,121</u>	<u>\$ 83,165</u>	<u>\$ 114,286</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$17,500 to management fees and \$100 to incentive income, (c) for management fees, reclassifies \$2,368 of net losses related to foreign-currency hedging activities from general and administrative expense and \$2,468 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for distributable earnings, and (d) adds back the effect of \$16,065 related to unrealized incentive income.
- (2) Distributable earnings excludes investment income or loss and includes the portion of income or loss on distributions received from funds and companies.
- (3) The expense adjustment consists of (a) equity-based compensation expense of \$14,748, (b) consolidated fund expenses of \$6,928, (c) expenses incurred by the Intermediate Holding Companies of \$538, (d) incentive income compensation expense related to unrealized incentive income of \$5,766, (e) \$2,834 of acquisition-related items, (f) \$1,982 of net gains related to foreign-currency hedging activities, and (g) \$2,468 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for distributable earnings.
- (4) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (5) The adjustment to other income (expense), net represents adjustments related to (a) the reclassification of \$355 in net losses related to foreign-currency hedging activities from general and administrative expense and the amortization of make-whole premium expenses.
- (6) 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 interest income to interest expense, net.

For the Six Months Ended June 30, 2019

	Consolidated	Adjustments (in thousands)	Distributable Earnings
Management fees ⁽¹⁾	\$ 345,037	\$ 43,101	\$ 388,138
Incentive income ⁽¹⁾	234,861	291,727	526,588
Realized investment income proceeds ⁽²⁾	—	66,343	66,343
Total expenses ⁽³⁾	(503,362)	(82,407)	(585,769)
Interest expense, net ⁽⁴⁾	(89,760)	88,208	(1,552)
Investment income ⁽²⁾	94,985	(94,985)	—
Other income (expense), net ⁽⁵⁾	58	(5,480)	(5,422)
Other income of consolidated funds ⁽⁶⁾	230,459	(230,459)	—
Income taxes	(6,350)	3,917	(2,433)
Net income attributable to non-controlling interests in consolidated funds	(86,442)	86,442	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(116,130)	116,130	—
Net income attributable to preferred unitholders	(13,658)	—	(13,658)
Net income attributable to OCG Class A unitholders / Distributable earnings	<u>\$ 89,698</u>	<u>\$ 282,537</u>	<u>\$ 372,235</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$33,260 to management fees and \$3,551 to incentive income, (c) for management fees, reclassifies \$1,717 of net gains related to foreign-currency hedging activities from general and administrative expense and \$4,964 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for distributable earnings, and (d) adds back the effect of \$288,176 related to unrealized incentive income.
- (2) Distributable earnings excludes investment income or loss and includes the portion of income or loss on distributions received from funds and companies.
- (3) The expense adjustment consists of (a) equity-based compensation expense of \$36,977, (b) consolidated fund expenses of \$7,063 (c) expenses incurred by the Intermediate Holding Companies of \$670, (d) incentive income compensation expense related to unrealized incentive income of \$156,166, (e) \$8,919 of acquisition-related items, (f) \$16,783 related to the Brookfield transaction, (g) \$1,618 of net losses related to foreign-currency hedging activities, and (h) \$4,964 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for distributable earnings.
- (4) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (5) The adjustment to other income (expense), net represents adjustments related to (a) the reclassification of \$10 in net gains related to foreign-currency hedging activities from general and administrative expense and the amortization of make-whole premium expenses.
- (6) 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 interest income to interest expense, net.

For the Six Months Ended June 30, 2018

	Consolidated	Adjustments (in thousands)	Distributable Earnings
Management fees ⁽¹⁾	\$ 363,511	\$ 35,371	\$ 398,882
Incentive income ⁽¹⁾	187,093	99,816	286,909
Realized investment income proceeds ⁽²⁾	—	78,528	78,528
Total expenses ⁽³⁾	(435,642)	(5,304)	(440,946)
Interest expense, net ⁽⁴⁾	(76,048)	70,239	(5,809)
Investment income ⁽²⁾	91,486	(91,486)	—
Other income (expense), net ⁽⁵⁾	1,611	(6,030)	(4,419)
Other income of consolidated funds ⁽⁶⁾	82,411	(82,411)	—
Income taxes	(11,264)	6,378	(4,886)
Net income attributable to non-controlling interests in consolidated funds	(3,365)	3,365	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(115,940)	115,940	—
Net income attributable to OCG Class A unitholders / Distributable earnings	<u>\$ 83,853</u>	<u>\$ 224,406</u>	<u>\$ 308,259</u>

- (1) The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$35,713 to management fees and \$100 to incentive income, (c) for management fees, reclassifies \$4,188 of net losses related to foreign-currency hedging activities from general and administrative expense and \$6,673 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for distributable earnings, and (d) adds back the effect of \$99,646 related to unrealized incentive income.
- (2) Distributable earnings excludes investment income or loss and includes the portion of income or loss on distributions received from funds and companies.
- (3) The expense adjustment consists of (a) equity-based compensation expense of \$29,701, (b) consolidated fund expenses of \$8,199, (c) expenses incurred by the Intermediate Holding Companies of \$745, (d) incentive income compensation expense related to unrealized incentive income of \$51,393, (e) \$1,260 of acquisition-related items, (f) \$1,865 of net losses related to foreign-currency hedging activities, and (g) \$6,673 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for distributable earnings.
- (4) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.
- (5) The adjustment to other income (expense), net represents adjustments related to (a) the reclassification of \$540 in net losses related to foreign-currency hedging activities from general and administrative expense and the amortization of make-whole premium expenses.
- (6) 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 interest income to interest expense, net.

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 unaudited condensed consolidating statement of financial condition:

	As of June 30, 2019			
	Oaktree and Operating Subsidiaries	Consolidated Funds	Eliminations	Consolidated
	(in thousands)			
Assets:				
Cash and cash-equivalents	\$ 699,429	\$ —	\$ —	\$ 699,429
U.S. Treasury and other securities	387,585	—	—	387,585
Corporate investments	1,803,617	—	(649,164)	1,154,453
Deferred tax assets	229,330	—	—	229,330
Operating lease assets	105,767	—	—	105,767
Receivables and other assets	663,568	—	(2,871)	660,697
Assets of consolidated funds	—	7,441,760	—	7,441,760
Total assets	<u>\$ 3,889,296</u>	<u>\$ 7,441,760</u>	<u>\$ (652,035)</u>	<u>\$ 10,679,021</u>
Liabilities and Capital:				
Liabilities:				
Accounts payable and accrued expenses	\$ 395,339	\$ —	\$ 1,010	\$ 396,349
Due to affiliates	188,991	—	—	188,991
Debt obligations	746,210	—	—	746,210
Operating lease liabilities	135,093	—	—	135,093
Liabilities of consolidated funds	—	5,756,274	(84,552)	5,671,722
Total liabilities	<u>1,465,633</u>	<u>5,756,274</u>	<u>(83,542)</u>	<u>7,138,365</u>
Non-controlling redeemable interests in consolidated funds	—	—	1,116,993	1,116,993
Capital:				
Capital attributable to OCG preferred unitholders	400,584	—	—	400,584
Capital attributable to OCG Class A unitholders	1,000,340	269,352	(269,352)	1,000,340
Non-controlling interest in consolidated subsidiaries	1,022,739	299,141	(299,141)	1,022,739
Non-controlling interest in consolidated funds	—	1,116,993	(1,116,993)	—
Total capital	<u>2,423,663</u>	<u>1,685,486</u>	<u>(1,685,486)</u>	<u>2,423,663</u>
Total liabilities and capital	<u>\$ 3,889,296</u>	<u>\$ 7,441,760</u>	<u>\$ (652,035)</u>	<u>\$ 10,679,021</u>

Corporate Investments

	As of		
	June 30, 2019	March 31, 2019	June 30, 2018
	(in thousands)		
Oaktree funds:			
Credit	\$ 1,014,918	\$ 1,004,646	\$ 925,539
Private Equity	283,377	239,285	299,961
Real Assets	366,615	307,128	189,109
Listed Equities	65,700	83,524	117,939
Non-Oaktree	65,618	80,446	62,037
Total corporate investments – Non-GAAP	1,796,228	1,715,029	1,594,585
Adjustments ⁽¹⁾	7,389	17,392	29,010
Total corporate investments – Oaktree and operating subsidiaries	1,803,617	1,732,421	1,623,595
Eliminations	(649,164)	(575,212)	(611,749)
Total corporate investments – Consolidated	<u>\$ 1,154,453</u>	<u>\$ 1,157,209</u>	<u>\$ 1,011,846</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 Class A and OCGH unitholders, (f) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements, and (g) issuances of, and distributions made on, our preferred units. As of June 30, 2019, Oaktree and its operating subsidiaries had \$1.1 billion of cash and U.S. Treasury and other securities, and \$746 million in outstanding debt, which included no borrowings outstanding against its \$500 million revolving credit facility. Our investments in funds and companies on a non-GAAP basis had a carrying value of \$1.8 billion as of June 30, 2019.

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, 2019, corporate investments of \$1.8 billion included unrealized investment income proceeds of \$339 million, of which \$116 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 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, certain evergreen funds pay incentives, if any, in the fourth quarter of the year. As a result, 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.

Distributions on the preferred units are discretionary and non-cumulative. We may redeem, at our option, out of funds legally available, the preferred units, in whole or in part, at any time on or after June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, at a price of \$25.00 per preferred unit plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. Holders of the preferred units have no right to require the redemption of such preferred units.

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, 2019 and 2018 are discussed below.

Operating Activities

Operating activities used \$986.1 million and \$28.9 million of cash for the first six months of 2019 and 2018, respectively. These amounts principally reflected net income, net of non-cash adjustments, and net purchases of securities of the consolidated funds in each respective period.

Investing Activities

Investing activities provided \$206.7 million and used \$26.0 million of cash for the first six months of 2019 and 2018, respectively. Net activity from purchases, maturities and sales of U.S. Treasury and other securities included net proceeds of \$158.9 million and net purchases of \$96.0 million for the first six months of 2019 and 2018, respectively. Corporate investments in funds and companies of \$98.7 million and \$145.0 million for the first six months of 2019 and 2018, respectively, consisted of the following:

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
	(in thousands)	
Funds	\$ 384,313	\$ 269,086
Eliminated in consolidation	<u>(285,606)</u>	<u>(124,045)</u>
Total investments	<u>\$ 98,707</u>	<u>\$ 145,041</u>

Distributions and proceeds from corporate investments in funds and companies of \$150.8 million and \$216.5 million for the first six months of 2019 and 2018, respectively, consisted of the following:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Funds	\$ 380,337	\$ 265,898
Eliminated in consolidation	(229,555)	(49,442)
Total proceeds	<u>\$ 150,782</u>	<u>\$ 216,456</u>

Purchases of fixed assets were \$4.3 million and \$1.4 million for the first six months of 2019 and 2018, respectively.

Financing Activities

Financing activities provided \$1,132.8 million and used \$45.1 million of cash for the first six months of 2019 and 2018, respectively, and included: (a) net contributions from non-controlling interests in consolidated funds of \$44.1 million and net distributions to non-controlling interests in consolidated funds \$90.6 million; (b) distributions to unitholders of \$308.6 million and \$287.0 million; (c) net unit purchases of \$10.0 million and \$10.6 million; (d) proceeds from CLO debt obligations of \$1,867.5 million and \$633.1 million and repayments of \$500.8 million and \$457.0 million, and (e) payments of debt issuance costs of \$1.9 million and \$4.0 million. Additionally, the first six months of 2019 included borrowings of \$416.8 million and repayments of \$372.0 million related to consolidated funds.

Future Sources and Uses of Liquidity

We expect to continue to make distributions to our preferred unitholders in accordance with their contractual terms and, subject to the terms of the definitive merger agreement entered into between OCG and Brookfield on March 13, 2019 (which imposes limitations on our ability to make distributions to Class A unitholders prior to the closing of the transactions contemplated by the merger agreement), to our Class A unitholders pursuant to our distribution policy for our common units as described in our annual report. 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 or preferred units in open market or privately negotiated purchases or otherwise, redeem our Class A units or preferred units pursuant to the terms of their respective governing documents, or repurchase OCGH units. Our board of directors has authorized our executive committee to make decisions in its discretion to repurchase our Class A units, from time to time, on an opportunistic basis.

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, credit agreements and equity financings. 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.

Debt Financings

In March 2018, 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 Fourth Amendment to Credit Agreement (the “Fourth Amendment”), which amended the credit agreement dated as of March 31, 2014 (as amended through and including the Third Amendment, the “Credit Agreement”). The Credit Agreement consists of a \$150 million fully-funded term loan, and a \$500 million revolving credit facility (the “Revolver”). The Fourth Amendment extended the maturity date of the Credit Agreement from March 31, 2021 to March 29, 2023, at which time the entire remaining principal balance of \$150 million will be 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. The Fourth Amendment also favorably updated the commitment fee in the corporate ratings-based pricing grid, increased the maximum leverage ratio and made certain other amendments to the provisions of the Credit Agreement. 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 0.10% per annum. The Credit Agreement contains customary financial covenants and restrictions, including (after giving effect to the Fourth Amendment) covenants regarding a maximum leverage ratio of 3.50-to-1.00 and a

minimum required level of assets under management (as defined in the credit agreement). As of June 30, 2019, we had no outstanding borrowings under our \$500 million revolving credit facility.

In December 2017, our indirect subsidiary, Oaktree Capital Management, L.P., issued and sold to certain accredited investors \$250 million of 3.78% senior notes due 2032 (the “2032 Notes”). The 2032 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. The proceeds from the sale of the 2032 Notes and cash on hand were used to redeem the \$250 million of 6.75% Senior Notes due 2019 and to pay the related make-whole premium to holders thereof. In connection with the Notes offering, we entered into a cross-currency swap agreement to euros, reducing the interest cost to 1.95% per year. The 2032 Notes provide 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 2032 Notes contain 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 2032 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 2032 Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

In July 2016, Oaktree Capital Management, L.P., issued and sold to certain accredited investors \$100 million of 3.69% senior notes due July 12, 2031 (the “2031 Notes”). The 2031 Notes are senior unsecured obligations of the issuer, jointly and severally guaranteed by Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. pursuant to a note and guaranty agreement. The proceeds from the sale of the 2031 Notes were used to simultaneously repay \$100 million of borrowings outstanding under our \$250 million term loan due March 31, 2021. The 2031 Notes provide 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 2031 Notes contain 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 2031 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 2031 Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

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 “Senior Notes”) pursuant to a note and guarantee agreement. The Senior 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 Senior Notes provide 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 Senior Notes contain 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 Senior 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 Senior Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

Preferred Unit Issuances

On May 17, 2018, we issued 7,200,000 of our 6.625% Series A preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$173.7 million in net proceeds to us. Distributions on the Series A preferred units, when and if declared by the board of directors of Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year. The first distribution was paid on September 17, 2018. Distributions on the Series A preferred units are non-cumulative.

On August 9, 2018, we issued 9,400,000 of our 6.550% Series B preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$226.9 million in net proceeds to us. Distributions on the Series B preferred units, when and if declared by the board of directors of

Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year. The first distribution was paid on December 17, 2018. Distributions on the Series B preferred units are non-cumulative.

Unless distributions have been declared and paid or declared and set apart for payment on the preferred units for a quarterly distribution period, during the remainder of that distribution period we may not repurchase any common units or any other units that are junior in rank, as to the payment of distributions, to the preferred units and we may not declare or pay or set apart payment for distributions on any common units or junior units for the remainder of that distribution period, other than certain Permitted Distributions (as defined in the unit designation related to the applicable preferred units (each, the "Preferred Unit Designation")).

We may redeem, at our option, out of funds legally available, the preferred units, in whole or in part, at any time on or after June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, at a price of \$25.00 per preferred unit plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. Holders of the preferred units have no right to require the redemption of the preferred units.

If a Change of Control Event (as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, we may, at our option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days' notice, within 60 days of the occurrence of such Change of Control Event, at a price of \$25.25 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

If a Tax Redemption Event or Rating Agency Event (each, as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, we may, at our option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days' notice, within 60 days of the occurrence of such Tax Redemption Event or Rating Agency Event, at a price of \$25.50 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

The preferred units are not convertible into Class A units or any other class or series of our interests or any other security. Holders of the preferred units do not have any of the voting rights given to holders of our Class A units, except that holders of the preferred units are entitled to certain voting rights under certain conditions.

Class A Unit Issuance

On February 12, 2018, we issued and sold 5,000,000 Class A units in a public offering, resulting in \$219.5 million in net proceeds to us. We did not retain any proceeds from the sale of Class A units in this offering. The proceeds were used to acquire interests in our business from certain of our directors, employees and other investors, including certain senior executives and other members of our senior management.

Tax Receivable Agreement

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 further material changes in the relevant tax law and that Oaktree earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, as of June 30, 2019, future payments of this nature were estimated to aggregate \$13.4 million over the period ending approximately in 2029 with respect to the 2007 private offering, \$32.4 million over the period ending approximately in 2034 with respect to the initial public offering, \$45.6 million over the period ending approximately in 2035 with respect to the public offering in May 2013, \$34.6 million over the period ending approximately in 2036 with respect to the public offering in March 2014, \$29.4 million over the period ending approximately in 2037 with respect to the public offering in

March 2015, and \$32.3 million over the period ending approximately in 2040 with respect to the public offering in February 2018. Future estimated payments to OCGH unitholders under the tax receivable agreement are subject to increase in the event of additional exchanges of OCGH units.

We did not make any payments under the tax receivable agreement during the six months ended June 30, 2019.

Capital Requirements of Regulated Entities

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, 2019, we were required to maintain approximately \$166.7 million in net capital at these subsidiaries and were in compliance with all regulatory minimum net capital requirements as of such date.

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, 2019:

	Remainder of 2019	2020-2021	2022-2023	Thereafter	Total
	(in thousands)				
Oaktree and Operating Subsidiaries:					
Operating lease obligations ⁽¹⁾	\$ 9,854	\$ 36,840	\$ 34,135	\$ 86,424	\$ 167,253
Debt obligations payable ⁽²⁾	—	—	150,000	600,000	750,000
Interest obligations on debt ⁽³⁾	14,211	53,099	46,630	148,719	262,659
Tax receivable agreement	14,363	31,070	32,342	110,097	187,872
Contingent consideration ⁽⁴⁾	8,740	—	—	—	8,740
Commitments to Oaktree and third-party funds ⁽⁵⁾	370,478	—	—	—	370,478
Subtotal	417,646	121,009	263,107	945,240	1,747,002
Consolidated Funds:					
Debt obligations payable ⁽²⁾	—	—	—	914,499	914,499
Interest obligations on debt ⁽³⁾	16,164	64,654	64,654	151,279	296,751
Debt obligations of CLOs ⁽²⁾	132,966	—	—	4,222,587	4,355,553
Interest on debt obligations of CLOs ⁽³⁾	56,133	222,256	222,256	598,109	1,098,754
Commitments to fund investments ⁽⁶⁾	38,977	—	—	—	38,977
Total	<u>\$ 661,886</u>	<u>\$ 407,919</u>	<u>\$ 550,017</u>	<u>\$ 6,831,714</u>	<u>\$ 8,451,536</u>

- (1) We lease our office space under agreements that expire periodically through 2031. The table includes both guaranteed and expected 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 are recorded as operating lease right-of-use assets and operating lease liabilities in our consolidated statements of financial condition.
- (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, 2019. Due to uncertainty in the timing of payment, if any, the entire amount is presented in the 2019 column. Please see note 17 to our condensed consolidated financial statements for more information.
- (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 2019 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 2019 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, 2019.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements. Please see note 17 to our condensed consolidated financial statements included elsewhere in this quarterly report 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 fair value of the investments and other financial instruments held by our consolidated funds by fund structure and fair-value hierarchy levels and the debt obligations of our CLOs for each period presented in our condensed consolidated statements of financial condition (in thousands):

<u>As of June 30, 2019</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Closed-end funds	\$ —	\$ 5,643,727	\$ 101,368	\$ 5,745,095
Open-end funds	330	978,025	25,867	1,004,222
Evergreen funds	3,110	89,816	99,454	192,380
Total	<u>\$ 3,440</u>	<u>\$ 6,711,568</u>	<u>\$ 226,689</u>	<u>\$ 6,941,697</u>
CLO debt obligations	<u>\$ —</u>	<u>\$ (4,312,023)</u>	<u>\$ —</u>	<u>\$ (4,312,023)</u>
<u>As of December 31, 2018</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Closed-end funds	\$ —	\$ 5,331,300	\$ 93,428	\$ 5,424,728
Open-end funds	1,386	790,203	183,965	975,554
Evergreen funds	21,311	60,475	48,529	130,315
Total	<u>\$ 22,697</u>	<u>\$ 6,181,978</u>	<u>\$ 325,922</u>	<u>\$ 6,530,597</u>
CLO debt obligations	<u>\$ —</u>	<u>\$ (4,127,994)</u>	<u>\$ —</u>	<u>\$ (4,127,994)</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, 2019, we had investments, at fair value of \$6.9 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 \$694.0 million. Of this decline, approximately \$228.6 million would impact net income and \$108.3 million would impact net income attributable to OCG Class A unitholders, with the remainder attributable to non-controlling interests and third-party debt holders in our CLOs. The magnitude of the impact on net income is largely affected by the percentage of our equity ownership interest and levered nature of our CLO investments.

Impact on Management Fees (before 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, 2019 and 2018, NAV-based management fees represented approximately 36% and 37%, respectively, of total management fees. Based on investments held as of June 30, 2019, we estimate that a 10% decline in market values of the investments held in our funds would result in an approximate \$6.3 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 consolidation of funds)

Incentive income is recognized only when it is probable that a significant reversal will not occur, 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 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, 2019, a 10% decline in fair values of the investments held in our funds and other holdings would result in a \$357.0 million decrease in the amount of investment income. The estimated decline of \$357.0 million is greater than 10% of the June 30, 2019 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 and other 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, 2019, 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 \$4.8 million;
- our operating expenses would have increased by \$8.9 million;
- OCGH interest in net income of consolidated subsidiaries would have decreased by \$2.2 million; and
- our income tax expense would have decreased by \$0.5 million.

These movements would have decreased our net income attributable to OCG Class A unitholders by \$1.4 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, 2019, Oaktree and its operating subsidiaries had \$746.2 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, 2019, 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 \$1.1 billion of aggregate cash and U.S. Treasury and other securities as of June 30, 2019, we estimate that Oaktree and its operating subsidiaries would generate an additional \$10.9 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, 2019, the consolidated funds had \$5.2 billion of principal or par value, as applicable, outstanding under these debt obligations. We estimate that interest expense relating to variable-rate debt would increase on an annualized basis by \$52.0 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 17 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. Please also see the information under “Risk Factors” in the consent solicitation statement/prospectus that forms part of the Registration Statement on Form F-4 (No. 333-231335) filed with the SEC by Brookfield in connection with the proposed Brookfield merger.

The risks described in our annual report and in the consent solicitation/prospectus 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 300,000 Class B units to OCGH on April 12, 2019 and 119,422 Class B units to OCGH on April 15, 2019, which, in the aggregate, 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, 2019

	Investment Period		Total Committed Capital	% Invested ⁽¹⁾	% Drawn ⁽²⁾	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive Income Recognized (Non-GAAP)	Accrued Incentives (Fund Level) ⁽³⁾	Unreturned Drawn Capital Plus Accrued Preferred Return ⁽⁴⁾	IRR Since Inception ⁽⁵⁾		Multiple of Drawn Capital ⁽⁶⁾
	Start Date	End Date											Gross	Net	
	(In millions)														
Credit															
Distressed Debt															
Oaktree Opportunities Fund Xb ⁽⁷⁾⁽¹³⁾	TBD	—	\$ 8,872	35%	13%	\$ (61)	\$ —	\$ 1,120	\$ 1,160	\$ —	\$ —	\$ 1,249	nm	nm	1.0x
Oaktree Opportunities Fund X ⁽⁷⁾	Jan. 2016	Jan. 2019	3,603	86	86	1,109	614	3,576	2,936	72	142	3,049	22.3%	13.5%	1.4
Oaktree Opportunities Fund IX	Jan. 2014	Jan. 2017	5,066	nm	100	1,002	2,178	3,890	3,573	—	—	5,089	6.4	4.0	1.3
Oaktree Opportunities Fund VIIIb	Aug. 2011	Aug. 2014	2,692	nm	100	996	2,669	1,018	1,200	52	—	1,392	8.9	6.1	1.5
Special Account B	Nov. 2009	Nov. 2012	1,031	nm	100	616	1,660	67	65	16	2	—	13.5	11.1	1.6
Oaktree Opportunities Fund VIII	Oct. 2009	Oct. 2012	4,507	nm	100	2,559	6,771	295	368	438	60	—	12.8	9.0	1.7
OCM Opportunities Fund VIIIb	May 2008	May 2011	10,940	nm	90	9,041	18,581	304	—	1,696	60	—	21.8	16.5	2.0
OCM Opportunities Fund VII	Mar. 2007	Mar. 2010	3,598	nm	100	1,488	4,907	179	—	87	—	377	10.2	7.4	1.5
Legacy funds ⁽⁸⁾	Various	Various	12,748	nm	100	10,773	23,500	22	—	1,626	—	—	23.6	18.5	1.8
													21.9%	16.0%	
Private/Alternative Credit															
Oaktree European Capital Solutions Fund ⁽⁷⁾⁽⁹⁾⁽¹⁰⁾	Dec. 2015	Dec. 2018	€ 703	97%	90%	€ 84	€ 251	€ 468	€ 414	€ 5	€ 7	€ 431	14.8%	10.1%	1.2x
Oaktree European Dislocation Fund ⁽¹⁰⁾	Oct. 2013	Oct. 2016	€ 294	nm	62	€ 39	€ 203	€ 18	€ 17	€ 3	€ 3	€ —	18.7	13.2	1.3
Special Account E ⁽¹⁰⁾	Oct. 2013	Apr. 2015	€ 379	nm	69	€ 64	€ 321	€ 4	€ 3	€ 9	€ 1	€ —	14.2	11.0	1.3
													15.2%	10.8%	
Oaktree Mezzanine Fund IV ⁽⁹⁾	Oct. 2014	Oct. 2019	\$ 852	88%	83%	\$ 147	\$ 339	\$ 512	\$ 505	\$ 6	\$ 13	\$ 494	11.3%	8.3%	1.2x
Oaktree Mezzanine Fund III ⁽¹¹⁾	Dec. 2009	Dec. 2014	1,592	nm	89	481	1,837	67	51	34	17	—	15.4	10.4 / 9.4	1.4
OCM Mezzanine Fund II	Jun. 2005	Jun. 2010	1,251	nm	88	494	1,694	51	—	—	—	136	10.9	7.4	1.6
OCM Mezzanine Fund ⁽¹²⁾	Oct. 2001	Oct. 2006	808	nm	96	302	1,075	—	—	38	—	—	15.4	10.8 / 10.5	1.5
													13.0%	8.7%	
Emerging Markets Debt															
Special Account H	TBD	—	\$ 351	37%	37%	\$ 8	\$ —	\$ 139	\$ 134	\$ —	\$ 1	\$ 135	nm	nm	1.1x
Oaktree Emerging Markets Opportunities Fund II ⁽¹³⁾	TBD	—	344	27	27	4	—	96	87	—	—	95	nm	nm	1.1
Oaktree Emerging Market Opportunities Fund	Sep. 2013	Sep. 2017	384	nm	78	134	341	91	70	9	15	37	16.4%	11.3%	1.5
Special Account F	Jan. 2014	Sep. 2017	253	nm	96	87	275	54	54	7	10	19	16.0	11.5	1.4
													16.3%	11.4%	
Private Equity															
Corporate Private Equity															
Oaktree European Principal Fund IV ⁽⁷⁾⁽¹⁰⁾⁽¹³⁾	Jul. 2017	Jul. 2022	€ 1,119	100%	97%	€ 248	€ 110	€ 1,222	€ 1,096	€ —	€ 48	€ 1,073	nm	nm	1.3x
Oaktree European Principal Fund III ⁽¹⁰⁾	Nov. 2011	Nov. 2016	€ 3,164	nm	87	€ 2,532	€ 2,391	€ 2,891	€ 2,542	€ 154	€ 340	€ 1,692	17.6%	12.1%	2.1
OCM European Principal Opportunities Fund II ⁽¹⁰⁾	Dec. 2007	Dec. 2012	€ 1,759	nm	100	€ 205	€ 1,913	€ 22	€ —	€ 29	€ —	€ 754	6.7	2.2	1.3
OCM European Principal Opportunities Fund	Mar. 2006	Mar. 2009	\$ 495	nm	96	\$ 454	\$ 927	\$ —	\$ —	\$ 87	\$ —	\$ —	11.7	8.9	2.1
													13.1%	8.6%	

	Investment Period		Total Committed Capital	% Invested ⁽¹⁾	% Drawn ⁽²⁾	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive Income Recognized (Non-GAAP)	Accrued Incentives (Fund Level) ⁽³⁾	Unreturned Drawn Capital Plus Accrued Preferred Return ⁽⁴⁾	IRR Since Inception ⁽⁵⁾		Multiple of Drawn Capital ⁽⁶⁾
	Start Date	End Date											Gross	Net	
	(in millions)														
Oaktree Power Opportunities Fund V	Apr. 2019	Apr. 2024	\$ 1,400	12%	10%	\$ (11)	\$ —	\$ 125	\$ 1,390	\$ —	\$ —	\$ 141	nm	nm	1.0x
Oaktree Power Opportunities Fund IV	Nov. 2015	Nov. 2020	1,106	94	94	111	1	1,154	1,078	—	—	1,227	8.3%	4.9%	1.2
Oaktree Power Opportunities Fund III	Apr. 2010	Apr. 2015	1,062	nm	69	472	980	228	360	50	40	—	20.0	12.7	1.8
Legacy funds ⁽⁸⁾	Various	Various	1,470	nm	63	1,688	2,615	(3)	—	123	—	—	35.1	27.4	2.8
													34.2%	25.7%	
Special Situations															
Oaktree Special Situations Fund II ⁽⁷⁾	TBD	—	\$ 1,877	14%	2%	\$ 6	\$ 4	\$ 46	\$ 173	\$ —	\$ —	\$ 42	nm	nm	1.x
Oaktree Special Situations Fund ⁽⁷⁾	Nov. 2015	Nov. 2018	1,377	100	83	141	175	1,110	1,089	—	4	1,125	14.1%	7.8%	1.2x
<i>Other funds:</i>															
Oaktree Principal Fund V	Feb. 2009	Feb. 2015	\$ 2,827	nm	91%	\$ 437	\$ 1,760	\$ 1,263	\$ 1,258	\$ 50	\$ —	\$ 2,264	6.7%	2.8%	1.3x
Special Account C	Dec. 2008	Feb. 2014	505	nm	91	156	423	193	235	21	—	289	8.8	5.4	1.5
OCM Principal Opportunities Fund IV	Oct. 2006	Oct. 2011	3,328	nm	100	2,887	6,166	49	—	554	9	—	12.2	8.8	2.0
Legacy funds ⁽⁸⁾	Various	Various	3,701	nm	100	2,718	6,404	15	—	407	—	—	14.4	11.1	1.8
													12.8%	9.0%	
Real Assets															
Real Estate															
Oaktree Real Estate Opportunities Fund VII ⁽¹³⁾⁽¹⁴⁾	Jan. 2016	Jan. 2020	\$ 2,921	86%	86%	\$ 632	\$ 250	\$ 2,903	\$ 2,754	\$ —	\$ 122	\$ 2,393	nm	nm	1.3x
Oaktree Real Estate Opportunities Fund VI	Aug. 2012	Aug. 2016	2,677	nm	100	1,440	2,836	1,281	1,061	90	188	846	14.6%	9.7%	1.7
Oaktree Real Estate Opportunities Fund V	Mar. 2011	Mar. 2015	1,283	nm	100	974	2,106	151	95	157	29	—	16.9	12.5	1.9
Special Account D	Nov. 2009	Nov. 2012	256	nm	100	207	435	36	—	17	4	—	14.7	12.7	1.8
Oaktree Real Estate Opportunities Fund IV	Dec. 2007	Dec. 2011	450	nm	100	391	797	44	—	65	9	—	15.7	10.6	2.0
Legacy funds ⁽⁸⁾	Various	Various	2,341	nm	99	2,010	4,326	—	—	232	—	—	15.2	11.9	1.9
													15.5%	11.9%	
Oaktree Real Estate Debt Fund II ⁽⁹⁾⁽¹³⁾	Mar. 2017	Mar. 2020	\$ 2,087	69%	39%	\$ 83	\$ 84	\$ 813	\$ 1,395	\$ —	\$ 12	\$ 770	nm	nm	1.1x
Oaktree Real Estate Debt Fund	Sep. 2013	Oct. 2016	1,112	nm	83	206	909	221	299	12	17	91	18.8%	14.0%	1.3
Oaktree PPIP Fund ⁽¹⁵⁾	Dec. 2009	Dec. 2012	2,322	nm	48	457	1,570	—	—	47	—	—	28.2	n/a	1.4
Special Account G (Real Estate Income) ⁽⁹⁾⁽¹³⁾	Oct. 2016	Oct. 2020	\$ 615	99%	99%	\$ 136	\$ 91	\$ 653	\$ 574	\$ —	\$ 26	\$ 600	nm	nm	1.3x
Infrastructure															
Oaktree Transportation Infrastructure Fund	Dec. 2018	Dec. 2023	\$ 1,097	19%	19%	\$ (11)	\$ —	\$ 202	\$ 837	\$ —	\$ —	\$ 221	nm	nm	1.0x
Highstar III Successor Funds ⁽¹³⁾	—	—	1,016	86	86	(5)	—	864	880	—	—	1,584	nm	nm	1.0
Highstar Capital IV ⁽¹⁶⁾	Nov. 2010	Nov. 2016	2,000	nm	100	(25)	1,512	870	1,155	—	—	1,613	4.0%	0.1%	1.1
									29,472 ⁽¹⁰⁾		1,234 ⁽¹⁰⁾				
									Other (17)		9				
									Total (18)		\$ 1,243				
									\$ 37,872		\$ 1,243				

- (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 outstanding under a fund-level credit facility (if any), 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, 2019 was \$3.8 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 or product 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) 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, 2019 management fee-generating AUM included only that portion of committed capital that had been drawn.
- (10) Aggregate IRRs or totals are based on the conversion of cash flows or amounts, respectively, from euros to USD using the June 30, 2019 spot rate of \$1.14.
- (11) 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 9.4%. The combined net IRR for Class A and Class B interests was 9.9%.
- (12) 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%.
- (13) The IRR is not considered meaningful ("nm") as the period from the initial capital contribution through June 30, 2019 was less than 36 months.
- (14) A portion of this fund pays management fees based on drawn, rather than committed, capital.
- (15) 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.
- (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, 2019, Oaktree had not recognized any incentive income from this fund. The accrued incentives (fund level) 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) This includes our closed-end Senior Loan funds, CLOs, a non-Oaktree fund and certain separate accounts and co-investments.
- (18) The total excludes one closed-end fund with management fee-generating AUM of \$93 million as of June 30, 2019, 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, 2019 (in millions)	Twelve Months Ended June 30, 2019				Since Inception through June 30, 2019				
		Rates of Return ⁽¹⁾			Annualized Rates of Return ⁽¹⁾			Sharpe Ratio		
		Oaktree		Relevant Benchmark	Oaktree		Relevant Benchmark	Oaktree Gross	Relevant Benchmark	
		Gross	Net		Gross	Net				
Credit										
High Yield Bonds										
U.S. High Yield Bonds.....	1986	\$ 11,495	6.6%	6.1%	7.1%	9.0%	8.5%	8.2%	0.78	0.57
Global High Yield Bonds	2010	3,114	6.6	6.1	7.6	6.8	6.3	6.7	1.05	1.06
European High Yield Bonds ..	1999	448	10.0	9.4	8.1	8.0	7.4	6.3	0.73	0.47
Convertibles										
U.S. Convertibles	1987	308	3.7	3.2	7.9	9.2	8.6	8.3	0.49	0.39
Non-U.S. Convertibles	1994	614	1.7	1.2	2.9	7.9	7.4	5.3	0.75	0.39
High Income Convertibles....	1989	1,055	4.5	3.9	7.2	10.9	10.1	8.0	1.05	0.61
Senior Loans										
U.S. Senior Loans	2008	639	4.1	3.6	4.1	5.8	5.3	5.1	1.07	0.65
European Senior Loans	2009	1,125	3.6	3.1	2.7	7.0	6.5	7.6	1.62	1.61
Multi-Strategy Credit										
Multi-Strategy Credit ⁽²⁾	Various	2,810	nm	nm	nm	nm	nm	nm	nm	nm
Listed Equities										
Emerging Markets Equities										
Emerging Markets Equities ..	2011	5,498	8.7	7.8	1.2	2.9	2.0	1.4	0.13	0.05
	Total	<u>\$ 27,106</u>								

(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.

(2) Includes Global Credit Fund and individual accounts across various strategies with different investment mandates. As such, a combined performance measure is not considered meaningful ("nm").

Evergreen Funds

	Strategy Inception	As of June 30, 2019			Twelve Months Ended June 30, 2019		Since Inception through June 30, 2019	
		AUM	Management Fee-generating AUM (in millions)	Accrued Incentives (Fund Level)	Rates of Return ⁽¹⁾		Annualized Rates of Return ⁽¹⁾	
					Gross	Net	Gross	Net
Credit								
Private/Alternative Credit								
Strategic Credit ⁽²⁾	2012	\$ 5,538	\$ 5,222	\$ 11	4.9%	3.6%	9.0%	6.6%
Distressed Debt								
Value Opportunities	2007	1,038	962	7	7.3	4.6	9.7	6.0
Emerging Markets Debt								
Emerging Markets Debt ⁽³⁾	2015	1,314	871	6	10.6	8.0	13.4	10.3
Listed Equities								
Value/Other Equities								
Value Equities ⁽⁴⁾	2012	542	517	8	12.8	8.9	19.1	13.8
			7,572	32				
		Other ⁽⁵⁾	878	16				
		Restructured funds	—	4				
		Total ⁽²⁾	<u>\$ 8,450</u>	<u>\$ 52</u>				

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

(2) Includes our publicly-traded BDCs and one closed-end fund with \$65 million and \$93 million of AUM and management fee-generating AUM, respectively. The rates of return reflect the performance of a composite of certain evergreen accounts and exclude our publicly-traded BDCs.

(3) Includes the Emerging Markets Debt Total Return and Emerging Markets Opportunities strategies. The rates of return reflect the performance of a composite of accounts for the Emerging Markets Debt Total Return strategy, including a single account with a December 2014 inception date.

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

(5) Includes certain Real Estate and Multi-Strategy Credit accounts.

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.

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	Fourth Amended and Restated Operating Agreement of the registrant dated as of May 17, 2018 (including Unit Designation, dated as of November 16, 2015, Unit Designation with respect to the Series A Preferred Units, dated May 17, 2018, and Unit Designation with respect to the Series B Preferred Units, dated August 9, 2018) (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the SEC on November 2, 2018).
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.
