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OAK - Q1 2015 Oaktree Capital Group LLC Earnings Call

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PRESENTATION

Operator

Welcome, and thank you for joining the Oaktree Capital Group first quarter 2015 conference call. Today's conference call is being recorded. At this time, all participants are in a listen-only mode but will be prompted for a question-and-answer session following the prepared remarks.

Now I would like to introduce Andrea Williams, Oaktree's Head of Corporate Communications and Investor Relations, who will host today's conference call. Ms. Williams, you may begin.

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

Thanks very much, Rhea. Welcome to all of you who joined us for today's call to discuss Oaktree's first quarter 2015 financial results. Our earnings release issued this morning detailing these results may be accessed through the Unitholders section of our website. Our speakers today are Oaktree's Chief Executive Officer Jay Wintrob, co-Chairman and Chief Investment Officer Bruce Karsh, and Chief Financial Officer David Kirchheimer. We will be happy to take your questions following their prepared remarks.

Before we begin, I want to remind you that our comments today will include forward-looking statements reflecting our current views with respect to, among other things, our operations and financial performance. Important factors may cause actual results to differ, possibly materially, from those indicated in these statements. Please refer to our SEC filings for a discussion of these factors.

We undertake no duty to update or revise any forward-looking statements. I would also like to remind you that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Oaktree funds.

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

During our call today, we will be making reference to certain non-GAAP financial measures which exclude our consolidated funds. For a reconciliation of each non-GAAP financial measure to its most directly comparable GAAP financial measure, please refer to our earnings press release, which was furnished to the SEC today on Form 8-K and may be accessed in the Unitholders section of our website at www.oaktreecapital.com.

Today we announced a quarterly distribution of $0.64 per Class A unit, payable on May 14 to holders of record as of the close of business on May 11. Finally, we plan to issue our first quarter Form 10-Q next week.

With that, I will now turn the call over to Jay.

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

Thank you Andrea, and hello everyone. Oaktree had a good beginning to 2015, highlighted by the substantial progress we made during the quarter toward our ambitious fundraising goals. Funds raised totaled a record $11 billion, helping to achieve our highest-ever assets under management of $100 billion at March 31.

Sizable demand for our new distressed debt funds Opps X and Xb, and for Power Opportunities IV, were the key fundraising drivers this quarter. Gross capital raised of $23 billion over the last 12 months was a record for any four-quarter period, demonstrating the popularity of our diverse fund offerings and the strength of our distribution organization and client roster.

During this past year, five different Oaktree strategies raised $1 billion or more. We also built substantial asset value in the first quarter. Our funds created $136 million of net accrued performance fees, boosting our total net accrued incentives to $1.1 billion. As of March 31, 49 of 50 closed-end funds more than 18 months old had positive net since-inception IRRs. And importantly, 43 of those funds were above the 8% preferred return at which incentives are created.

Driving this value creation was our first quarter closed-end gross fund return of a blended 4%. Generally, we saw a continuation of performance trends from the fourth quarter, with real estate and Europe delivering the highest returns. For the first quarter, our Real Estate Opportunities Funds had gross returns of 6%, boosting their trailing 12-month gross returns to 28%. Meanwhile, the European Principal Funds generated a 14% gross return in the first quarter, pushing the past 12-months return to 30% gross.

Now, as we discussed last quarter, our distressed debt strategy, while benefiting from cross holdings with real estate, continues to be influenced by a concentration of public equity holdings and restructured entities in industries like shipping. The strategy returned 1% in Q1 but remained down 3% for the past 12 months. A benefit of locked-in capital is that we can be patient investors, and our limited partners understand there can be increased volatility in returns as portfolios become more concentrated in post-restructuring equities.

Last quarter, I mentioned that we are targeting our largest-ever closed-end fund marketing effort of $20 billion over 18 months, which includes capital for distressed debt, real estate, power, infrastructure and senior loans. I am pleased to report that we are well on our way in that effort. Of the first quarter's total capital raise of $11 billion, $9 billion went to closed-end funds. Opps X and Xb accounted for $7 billion towards an eventual target of $10 billion, while Power Opportunities Fund IV had a one-and-done closing at $1 billion.

In the second quarter, we have already had a close for Real Estate Opportunities Fund VII. We have launched the marketing of our third Enhanced Income Fund comprised of lightly levered senior loans. And we look forward to launching the marketing effort for the first Oaktree Infrastructure Fund in May with the team that joined us last year from Highstar.

Capital flows have also been strong on the open-end fund side. Over the last 12 months, we have received approximately $4 billion in net inflows, which includes $1.2 billion from high yield bonds and $2.9 billion for emerging markets equities.

All of this fundraising success is due to our long-term investment performance, aided by contributions in the last four years from product innovation. Just in the past year, we have grown new strategies, those launched since 2011, by 78% to $16 billion of AUM.

After six months as Oaktree's CEO, I'm even more impressed by the power and potential of our platform, the goodwill of our clients who entrust us with significant commitments, and the excellence of our employees. As we embark on Oaktree's third decade, it is an exciting time for our entire organization. We are heightening our focus on serving our clients and renewing our mission to deliver superior investment results with risk under control and to conduct our business with the highest integrity.

And with that, I will hand it over to Bruce to cover the investment landscape.

Bruce Karsh *- Oaktree Capital Group, LLC - Co-Chairman and CIO*

Thanks, Jay. And hello, everyone. I would be remiss if at the start I didn't express my pride on behalf of Howard and our fellow co-founders at Oaktree reaching $100 billion of assets under management on our 20th anniversary. As I think most of you know, at Oaktree we focus first and foremost on serving clients in the belief that successfully doing so will result in growth and profitability for all of us as employees and equity owners.

To put the $100 billion of AUM in perspective, consider that it's more than triple the $27 billion we had a decade ago. Moreover, we grew to $100 billion despite the fact that over our first two decades we distributed $76 billion to closed-end fund clients and grew almost entirely organically. In that same period, the entirety of our funds and accounts generated aggregate net market appreciation and income of $63 billion. Thus, a big tip of my hat to my Oaktree colleagues around the world and heartfelt appreciation to our clients, unitholders and other stakeholders for your ongoing trust in us.

Now, given the billions of dollars of new capital commitments, I would like to share my impressions of the investment climate for distressed debt as well as some of the highlights from across the firm's investment portfolios. Over the last few years, low interest rates and investors' search for yield have produced record bond issuance in both the US and Europe, a trend that continued in the first quarter. While our high yield bond teams maintain their hallmark selectivity, our distressed debt professionals start eyeing potential future opportunities.

For now, the general level of actionable opportunities in the corporate distressed debt arena remains low. However, the record debt issuance and low interest rates have fueled accommodative capital markets, aggressive capital structures and what we believe is a weakening of lending standards. Over our three decades of investing together, we have learned that loose credit standards and record issuance inevitably lead to financial market dislocation. Of course, the timing of each downturn is inherently unknowable.

In the meantime, our investment teams are finding some attractive investments. For example, our current distressed debt fund, the $5 billion Opps IX, is close to fully invested. We found opportunities in European non-performing loan pools, real estate, shipping and commodity-related businesses. One recent purchase featured a sizable portfolio of residential mortgages from an Irish bank.

In other cases, we are a seller. Metrovacesa is a large property company in Spain and one of the largest in Europe. In 2010, we acquired its debt at a steep discount to fair value. The debt was secured by shares in a high-quality French REIT as well as a large portfolio of commercial real estate. We recently sold Metrovacesa for a profit of over ?200 million and an IRR of 22% after the REIT re-rated and the Spanish real estate market recovered.

As important as the investment's financial gain is what it says about the growth of Oaktree's investment platform. A decade ago, we would have had little chance of sourcing a deal like Metrovacesa, let alone capitalizing on its potential. But today, Oaktree's European presence, real estate expertise and global profile are generating a growing supply of promising investment opportunities.

Another recent example of Howard's and my tried and true saying, well bought is half sold, is our investment in Tribune Media, one of the largest broadcasting companies in the United States. Tribune is a good example of an Oaktree specialty: identifying good companies with broken balance sheets, investing in debt to capture upside potential with downside protection, and applying our expertise in restructurings and their aftermath to achieve that upside.

Excessive debt made Tribune highly leveraged at the worst possible time: on the eve of the global financial crisis. We accumulated a large stake in the company's first lien leveraged loans both before and after its December 2008 bankruptcy filing. Our fund's locked-in capital allowed us to wait out the contentious four-year bankruptcy process, during which our team provided tremendous value add. Afterwards, in exchange for our senior debt claims, we received 20% of the company's restructured equity and a cash dividend representing nearly 3/4 of our cost basis.

As of March 31, 2015, Oaktree's Opportunities Funds had generated over two times the multiple of invested capital and a 21% internal rate of return on this investment. The funds had an equity monetization last week but remain a sizable shareholder in a company with solid prospects. Even as we plan further fund realizations, we are preparing for the large investing opportunity that we think lies ahead. Opportunities Funds X and Xb had a combined first close of $7 billion. At $3 billion, Opps X will be similar in size to the 2011 fund, Opps VIIIb. It's not a lot of capital to invest, but I think about the right size given our preference to fully deploy our Opps funds much quicker than their three-year investment period. We also believe the a/b fund structure is the best way to ensure we have an appropriate and flexible amount of capital to deploy opportunistically. It's the ideal combination of a moderate amount of capital to start with a bigger amount of committed capital in reserve. Rest assured, we don't take for granted the client trust implicit in this arrangement. Given that we have discretion as to when we start the investment period for the fund, our LPs trust us to be disciplined in deploying their capital and charging fees on it. We have worked hard over three decades to earn that trust and look forward to building on that trust over the next 30 years.

I look forward to answering your questions, but now I am delighted to turn the call over to David.

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

Thank you, Bruce. And hello everybody. The first quarter marked a solid start to the year on every financial front: earnings, cash flow and value created. The results illustrated our business model's diversification by asset class, market and geography, with Europe, real estate, principal group and senior loans particularly prominent. Notably, this occurred with almost no contribution yet from the quarter's $9 billion plus of closed-end fundraising.

Adjusted net income in the first quarter was $155 million, or $0.85 per Class A unit, reflecting meaningful contributions from all three income sources: fee-related earnings, incentive income and investment income. FRE benefited from a slowdown in the growth of recurring operating expenses. Incentive income arose largely from annual tax-related distributions from closed-end funds. In addition, four funds in three different strategies accounted for normal incentive income net of compensation expense of $23 million. And the first quarter's investment income of $53 million benefited from big growth at DoubleLine Capital, in which we are a 20% owner. That firm's assets under management grew almost 50% over the past year to $73 billion on strong performance and asset flows as well as product extension.

Cash flow from fee-related earnings, incentive income and investment income proceeds drove the first quarter's distributable earnings to $141 million, or $0.81 per Class A unit, producing a distribution of $0.64 per Class A unit. On the management fee front, I want to remind you about our discipline in deciding when to start a closed-end fund's investment period and, thus, its full management fees. Management fee-generating AUM is a forward-looking metric, so the fact that its March 31 balance of $78.5 billion was little changed from three months earlier indicates that management fees in the second quarter currently underway aren't presently expected to be meaningfully different from the first quarter.

Earlier this week, Opps VIIb announced distribution to its LPs that will result in net incentive income to us of an estimated $31 million, which includes the monetization event mentioned by Bruce. That brings to roughly $40 million the total of known net incentive income and investment income proceeds so far in the second quarter.

And with that, we're delighted to take your questions. So Rhea, please open up the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

David, maybe a first one just for you -- I understand the assets moving from AUM to fee-generating AUM will take some time as some of the funds are turned on and deployed. Just based on what you guys are looking at, is there a way to gauge that just in terms of the timing of when we should expect some of the fees to start to tick up?

And then, given what we saw on the expense side this quarter with the G&A lower than expected, how should we be thinking about the margin opportunity as the fees start to tick up? Because most of these are going to be on successor funds.

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

Sure. Thanks, Mike. Great question. First, on the top-line side of it, of course, the business is inherently unknowable -- right? -- in terms of when this very large, record amount of so-called shadow AUM is going to move from total AUM and start entering fee-generating AUM and then start generating management fees. And so I won't offer a prediction on that front.

I would, though, just remind you of history, which I know you are quite familiar with. Let's say the environment continues to be quite positive in the market, such as we saw back in 2013. Well, in that environment it took a while, it took three quarters for Opps IX, the fund Bruce just mentioned, to in fact start its investment period because opportunities were relatively slight. But in that kind of environment, the 35% of our management fees that are based on NAV, well, it would stand to reason that those fees are going to grow and benefit. And of course, the investments in the ground would also be expected to appreciate in value, thus benefiting both accrued incentives and investment income.

Conversely, I recall 2011, when at about this time of the year I can remember us thinking that Opps VIIIb, another fund that Bruce mentioned, definitely wouldn't start its investment period until 2012. And lo and behold, in August of that year the US debt got downgraded with the European sovereign debt crisis. Other things caused markets to tumble. And so the environment changed, and we started the investment period early for Opps VIIIb.

So, longer story short, that while our business model doesn't afford us a perfect hedge, that whatever the environment is, if the management fees take longer to start, well we probably see benefit elsewhere in the income and vice versa. I realize that doesn't answer your question in terms of when the fees are going to start. And I would also just quote myself from the remarks as saying that we definitely don't expect management fees to increase in the second quarter.

Now, to your G&A question, first of all, first quarter G&A benefited from foreign currency gain, as fully disclosed in the document, to the tune of I think a little over $5 million. So I would not expect fee-related earnings to increase from the first quarter to the second quarter because I wouldn't expect the gain, which stemmed largely from the record decline of the euro, to recur. So I don't believe that we are yet at the cyclical low of fee-related earnings, but I think we are getting quite close to it. And when the management fees start picking up, well, I would expect fee-related earnings to increase. And over time, I'm quite excited about the prospects, just given this large amount of shadow AUM and the fund raising yet ahead.

Mike Carrier - *BofA Merrill Lynch - Analyst*

All right. Thanks a lot. And then just as a follow-up, Bruce, you mentioned deployment opportunity was a bit tougher in some of the strategies. But on the flip side, some of the investments that have been made, it looks like either they are getting more seasoned and so this quarter you had a realization. I just wanted to get a sense when you look at the current portfolio and what has taken place over the past couple years, both in terms of the investment appreciating but some of the structures that have been taking place as well, how seasoned is the portfolio? What's the outlook, given the market backdrop, for further realizations over the next couple years as long as the environment remains pretty favorable?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, as long as the environment remains favorable like it is, the older funds, the more seasoned funds, are going to be the ones that are going to be more in a harvesting mode. And we are motivated on the earliest funds to do so. And I think, like you say, as long as the environment stays favorable, we will continue to do it. We have actually begun to harvest a little bit out of our a/b fund.

So I think that you will see us -- we have been very good about realizing, distributing proceeds back to LPs. We've also been, I think, prudent about sizing our new on-the-run fund, Opps Xa, which is only $3 billion. And David talked about when fees may start. It turns on the pace of investment. And we feel like we've sized that fund such that we will invest the capital within our standard two-year period, and then we will see what happens from there.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

I have a question on the shipping portfolio. Obviously, this is a place that you guys have a lot of experience in over time, and had a very successful investment in it many years ago. So I'm curious, given how much it has been in the press and the headwind that it has been, how the current environment in that portfolio compares to the last time you had a big bet on that space. And if the current environment makes you any better -- or feel better or worse about the positioning relative to the past, the last time.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, we have had a lot of experience and success with shipping. And be careful when you talk about headwinds because Oaktree is heavily invested in the sector, but there are different kinds of vessels. There are crude tankers, product tankers, container ships, chemical tankers and dry bulks. And when you talk about headwinds, the headwinds I presume you are talking about are in the dry bulk sector because some of the other sectors are doing extremely well. And overall, Oaktree in shipping is doing well.

But as you point out, in one particular sector, dry bulk, right now there's headwinds and serious headwinds. Now, having said that, we think this is going to be a cycle just like other cycles. And it will turn, and we have got the staying power to see that happen. And we are optimistic about our eventual returns in the dry bulk area.

For us, we have seen these before, these cycles, and had periods when we were down on a mark-to-market basis in some sector or investment and ridden out the storm and done quite well. We expect the same to happen here.

Patrick Davitt - *Autonomous Research LLP - Analyst*

So it's fair to say there's nothing really, from your perspective, that much different this time around. We just have to wait it out.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

I think so. Right. The supply-demand will correct itself. Someone said low rates is the cure for low rates. And I think that's what will happen this time, as has happened many times before.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Thank you. Just one quick follow-up on the Tribune sale -- I think you sold a quarter, according to the press. Should we take that as an indication of the beginning of a sell-down for that position, given your experience with other large positions like that?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, it was the first major sale that we made in Tribune. And we like the company, and we think it's got solid prospects. And we will monitor. I think that we hit a point where we sold at a price that was about as low a price that we would sell. So we will monitor both the company's progress as well as the stock price and decide if and when we want to sell again. But there's no pre-planned program to sell.

Having said that, we think it's good for the stock for the overhang to get reduced and also to increase the float and to let some of the big long-only accounts start accumulating stock. So I think, net-net, it made sense to do what we did. But in terms of timing I really can't predict going forward.

Patrick Davitt - *Autonomous Research LLP - Analyst*

All right, makes sense. Thank you.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

So first, Jay, I know it's still relatively early days. But I'm just wondering if you could maybe flesh out some of the initiatives around improving profitability of the franchise. I understand the natural sort of operating leverage inherent in the model just as some of the newer strategies continue to scale. But maybe from an efficiency standpoint, how might you be thinking about maybe better focusing or redeploying resources? And then how will you be measuring progress on that front?

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

Sure, Michael. As you said, I just want to emphasize probably the most important factor to improving the results at Oaktree over time is really focused on both the fundraising and deployment side and the investment performance side. So that trumps almost all efficiency activities.

Having said that, it's early days. But what we focused on here, I guess you could say, is best defined as systematically looking across Oaktree at the information, the profitability of our different investment strategies to inform us on where we might want to deploy more resources or less resources, a more systematic look at our G&A expenditures, again, with the same idea of where to allocate resources.

And we've also broadened the governance at Oaktree. So there's more people in the room, both investment professionals and non-investment professionals, taking a look at things such as our new products, the terms and conditions, and how we are dealing with requests for changes in fees, for example, from large clients. How we are spending CapEx and other large project expenditures, how to deploy that. As well as just a fairly routine but important budgeting process where we can take a look at what we spent in the past and how that should grow or be redeployed in the future.

And I think that it has been somewhat eye-opening for most people at Oaktree. People have done such an outstanding job of raising funds, of deploying, of satisfying and gaining clients. It was a little bit of a step to the side to take a look at all that has been accomplished, especially during the last three and four years of some rather dramatic growth in some newer strategies. So those are the big areas.

But again, I think investment performance, fundraising and deployment probably trumps all of those activities and will for the foreseeable future.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Got it. That's helpful. And then maybe for Bruce, just coming back to the investment opportunity set -- curious to get your thoughts on how you are balancing maybe taking a bit more of an aggressive stance to capitalize on some of the opportunities that are presenting themselves, particularly with all the dry powder available on one hand versus staying disciplined on valuations, particularly in light of what seems to be rising competition.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, we have seen this part of the cycle before. And it's a tricky one because the opportunity set dwindles, and there are only a few areas that really meet our exacting requirements for investing. We will tend to concentrate more in those areas. One in particular I mentioned that we like quite a bit is European NPLs. Obviously, the energy sector is interesting.

But generally, we are focused on harvesting and realizing. And we have been distributing a whole lot of capital back to our LPs. And we will continue to maintain our discipline like we have done several times before over 30 years now. So that's really the key -- just to understand where we think we are in the cycle and what that means in terms of how we deploy and how we realize.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks for taking my questions.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

So first question for Jay -- I was hoping you could provide an update on some of the new initiatives that you are working on. And I was especially looking for commentary around insurance and retirement, given your background, but also maybe permanent capital-type structures like BDC or direct lending.

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

Sure. Thank you, Craig. There's a lot of initiatives underway at Oaktree and a lot of opportunities. I wanted to start by saying that almost all of our growth at Oaktree historically has been organic and through the launch of what we called step-out strategies that are closely aligned with what we are already doing.

And if you think about it today, we have got more than 20 different strategies across six broad asset classes that we are already participating in in a meaningful way. And then you think about the geographic reach of not only our investment teams but the investment activity and our LPs and all the changes going on in the global investment markets.

I want to say that probably there are opportunities that we will get involved in that aren't even necessarily on our radar screen today. And that's inherent to a firm like Oaktree which is opportunistic and flexible in trying to seek out inefficient and attractive investment areas.

But having said that, I believe the best opportunities for us right now and for the foreseeable future is to continue to successfully execute our closed-end fundraising plan, which we talked about earlier, deploying that capital judiciously, and continuing to grow the investment strategies and the funds where we've made a lot of progress during the last four years.

It's interesting, if you look at, for example, infrastructure, real estate, emerging market equities and debt, strategic credit and senior loans -- all of those areas have had very significant progress. The growth in AUM there just since 2012 has been from roughly $8 billion to, today, over $28 billion.

And, as I mentioned in my remarks, we are looking forward to launching our first Oaktree Infrastructure Fund. We are underway, and we hope to successfully market our third Enhanced Income Fund of lightly levered senior loans. And then there's other areas that are logical step-outs that we are at least starting to see opportunities. For example, we have been quite successful in developing our Real Estate Opportunities Fund strategy. We are currently marketing Real Estate Opportunities Fund VII. But we are starting to see opportunities to deploy capital in new real estate strategies that target returns somewhat lower than we have historically targeted. And so we will watch that very, very closely.

In the long-tenured strategies that have been around, we are seeing very good overall growth in senior loans and in the high yield markets. And as those markets grow, that should bode well for opportunity for us to continue to grow those strategies over time. We are currently intending to ramp our offerings in one or more Oaktree multi-strategy products, which for us means combining several of our existing open-end and evergreen fund strategies. And I think we continue to believe that Europe is going to provide an increasing amount of interesting investment opportunities, as Bruce discussed. And we will continue to grow our investment activity there and our fundraising activity there in the future.

And all along the way, we are going to stay close to our operating tenets, our investment philosophy, focusing on risk control, looking for inefficient markets where we actually think that our skill in proprietary research adds value rather than just gathering assets for the sake of it. And, again, sticking probably with the step-out theme, so close to home with our existing strategies.

Those are all about really product, I would say. So I want to mention and talk about distribution for a second because I think there's a lot of opportunity for Oaktree there. I guess start with geography -- still only about 27% of our AUM are managed for clients that are not in the US. And that really hasn't been growing over the last few years, if you take a look at it. Now, much of that is due to how successful we have been raising funds from US-based clients, which is a good thing. But I do believe we've got room to grow both in absolute and percentage terms in EMEA and in Asia-PAC. And we have been building our team there of marketing and client relations professionals. And we will continue to probably allocate more resources there.

And then, in terms of broadening distribution, obviously our strength at Oaktree has been with blue-chip institutional clients, especially the public and private pensions. And that will continue to grow. But if you look back over the last period, we have grown significantly our AUM in the mutual fund and sub-advisory space. Those AUM together have grown over 130% over the last two years and represent about 8% of our total AUM.

And I also think that you talked about insurance and such. I think that, if you think of the macro growth drivers for that sub-advisory channel, in particular, especially for retirement assets, I think there should be continued growth opportunities for Oaktree there.

I guess the last thing you asked about was BDCs and permanent capital. I just want to mention that Oaktree has been engaged in the direct lending space in different ways for quite some time, historically mainly in the higher-risk part of the capital structure there. We have been looking and moving higher up in the capital structures and see opportunity. We do that across several of our legacy funds.

At the moment, our focus is not so much in the kind of vehicle we formed to attract that capital, be it permanent or open-end or closed-end, but really looking for the investment opportunities in direct lending, where, again, I think several of our existing funds have that as part of their mandate and will continue to execute as they see opportunities.

So those are some comments on growth opportunities in the product area, geography, distribution. Hopefully, that's helpful.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thank you, Jay. It's very helpful. So just one follow-up here -- if we strip out the Opps Xb piece from the $17 billion of dry powder, is it reasonable to assume you can invest the remaining in, let's call it, $10 billion, $11 billion, $12 billion of uncalled capital, absent a severe market correction?

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

Well, my view is that it's reasonable. It just depends on the timeframe. I don't think we see any of the dry powder in asset classes where there's no hope of investing it. But it's really a matter of the timeframe. And that differs between the different asset classes where we have the dry powder.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

I would say it's generally reasonable. I mentioned $3 billion in Opps Xa should be invested over a period of roughly two years. And there are obviously other components like strategic credit, European principal, power, real estate debt -- those are some of the bigger components of our dry powder. And certainly we expect those strategies to deploy capital. I, again, don't know exactly the pace; but within a reasonable period of time.

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

I would add, Bruce, that on the European Principal Fund III, where we have organized and have big interest in a number of platform companies, there is a pipeline there that we are seeing reasonable opportunities over time to invest. So as I scan the list, I don't really see any of the dry powder in asset classes or funds that don't have prospects to invest.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

No; I think the premise of the question is valid, which is it's really all about Xb, the major source of dry powder that may or may not get called anytime soon, depending on the credit cycle.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thank you, David.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

That was Bruce. That's fine.

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

But I'll take the thank you anyway, Craig. But thank you for the question.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks, guys.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

First -- I know this was touched on really briefly in the prepared comments. But talk about the investment opportunities in energy. I think three months ago at least we on the equities side thought that there would be meaningful investment opportunities in energy. As you look out and see how the capital markets and the banks and actually energy prices have all moved and reacted, do you still think there's potential for Oaktree to have an outsized opportunity in energy? And if so, how does that play out?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, the operative word there is outsized. Certainly, there is an opportunity in energy -- has been -- since the fourth quarter for us. And we have been deploying capital throughout the fourth quarter and the first quarter. I wouldn't say, given the factors you cite, the relative rebound in oil price and competition and capital earmarked for the sector -- I wouldn't say it's as robust an opportunity as we had hoped when prices started plunging in the fourth quarter. But there's a voracious need for capital out there among oil and gas companies. And we are confident that we can and will continue to find some pretty good, attractive opportunities there.

Ken Worthington - *JPMorgan - Analyst*

Got it. But it's not outsized?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

I wouldn't call it outsized right now. No.

Ken Worthington - *JPMorgan - Analyst*

Okay. Perfect. David, FX -- I think FX was called out in terms of G&A. Can you talk more broadly about the income statement, what sort of impact FX had on the results? I apologize if it was in the release; I didn't see it. But can you guide us there?

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

Sure. So quite a quarter, as we all know. In the income statement, the effect on management fees somewhat muted in the first quarter just because of when those fees arise -- or arrive, rather. Instead, the effect is really in the second quarter on the euro-denominated funds. But that's all baked into the fee-generating AUM number that I highlighted in my remarks.

On G&A, it's spelled out quite clearly. When you have a chance to look at the G&A portion of the earnings release, you will see we break out the FX gain that serendipitously benefited the first quarter. So we go our usual with-and-without comparison between this year's first quarter and the last year. That had a number of causes, but the biggest one by far was the decline in the euro versus the dollar. And certainly wouldn't expect that to reoccur.

Then the third thing I would just mention, going back to fee-generating AUM, and AUM in general, that you can see in our roll-forward tables in the release -- the negative impact that the strengthening dollar had on both of those metrics. Does that help, Ken?

Ken Worthington - *JPMorgan - Analyst*

It does. Do you have a bottom-line number on what you think it did in 1Q or even a gauge for an approximate for 2Q, given the euro-AUM exposure that you have?

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

Sure. I would just say, knowing the various interactions, that net-net there's probably about a $3 million or so net gain when you factor in all the effects and the various line items in the ANI income statement in the first quarter. That's an educated guess just based on various components. And going into the second quarter, it's too early to tell, obviously, because we are only one month into a three-month quarter. So I'm not going to offer a guess on that.

And again, the number is already reflected in the March 31 fee-generating AUM. If you use that as the basis for anticipating what management fees are in the second quarter, that already reflects the FX activity through March 31, which was the most severe part of the drop. And since then, as you know, the euro has rebounded a little bit.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. Thank you very much.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

I just wanted to follow up on the energy commentary there. Just what are your thoughts around the catalysts that could drive greater deployment within the energy sector? Some folks suggest the bid-ask has been very wide and could take some time to narrow. I guess I just wonder if there's potential for liquidity events with banks pulling back on lines of credit and reserves worth perhaps half as much as they were a year ago. So I guess just what is your sense on the catalysts and the timing that could drive an acceleration in deployment within energy?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, a couple things. First of all, psychology; let's start there. With the rebound in oil prices and the expectation of further rebounds, you don't have the kind of negative psychology that we love to see that creates the best opportunities. But you also have the banks cutting back on their RBLs, and that will create liquidity and need for capital. And that creates some opportunity for us. And we've already begun to see it, and we think we will see more of it. So if you saw, all of a sudden, a relapse in prices in oil, for example, back down into the $40s, I think that would change the psychology pretty quickly and create more of what I would call an outsized opportunity. But as things stand right now, it's not at a heightened level, let's say.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay. And I just wanted to follow up on Jay's point on distribution, in particular around the open-end products. It seems that can be a big opportunity for Oaktree. Could you share any updates along the distribution front, how you are thinking about that? And, I guess, just what's the right organic growth rate we should be thinking about within the open-end funds?

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

Thanks, Michael. Well, first of all, you are correct. We've had some success, especially in the past recent period, on our open-end offerings, probably the most significant of which are emerging market equities, high yield, some senior loans, converts. In the past year, as it has been previously disclosed, we had the ramp-up of a large sub-advisory relationship in the emerging market equity space. We would not expect that to be replicated in the next year, not that we aren't seeking opportunities. I think we have raised about $4 billion in net flows in the past year. It's unlikely we will have that level in the next 12 months because of what I just mentioned. But we continue to still see flows in several of those categories, and we will continue to pursue that.

The one thing I'd say -- I don't know if I'd comment on a specific organic growth rate. But I think on at least three of these four markets, the overall markets are growing: high yield, emerging market equities, senior loans -- and in some cases quite significantly. So there's a good opportunity for us if we can position ourselves well and execute to capture our fair share. Convert market, for technical reasons, really has been flat to slightly shrinking in the aggregate, and that's not dissimilar to our overall balances in that market. So where the markets are growing in open-end, in the ones that we are pursuing, I think we will capture our fair share. That's what we will be trying to do.

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

A couple things I'd add, Michael -- recognize that in the case of senior loans, which is one of those markets with a big runway, that that spills over into the closed-end area for us. So you have heard Jay and maybe Bruce talk about Enhanced Income Fund III as being launched this quarter. And so a lot of the growth in that market happens to fall into the closed-end fund category, not so much in open-end.

And the other thing I would just offer on convertibles, for what it's worth, which may not be a lot, is that we have been waiting since the crisis for that market to start growing in size, which we believe will enable our strategy to grow with it. And since rates have been so low for so long, treasuries have really not had much incentive to issue convertibles. But one of these days, rates will go up. And, assuming markets go up along with it, well, we expect that market to resume its growth. And we look forward to that day because our performance continues to be very strong in that area.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Thanks for taking my questions. Most of them have been asked and answered. But maybe, Bruce, if you could talk a little bit more about the European backdrop for, as you mentioned, I think European NPLs is one area that's interesting. Whether you've seen any either improvement in the desire for entities to sell or actually the other way around, where you think there will be less opportunity given the stimulus that we've seen in Europe.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

All right, okay. I'm encouraged by what I see, and it's clear to me that it's going to be a good year in terms of opportunities to buy from European banks. They seem eager to sell, and we are seeing on the horizon more and more large pools of NPLs and assets that they seem to want to dispose of. So I feel pretty good about the prospects. And I also feel like, given our position in that market and our strong team there, that we will continue to make some very good purchases.

Brian Bedell - *Deutsche Bank - Analyst*

And you see that mostly on the NPL side? Or is there other direct lending capacity -- or capacity, rather, to create direct lending entities? I think you mentioned that on a prior earnings call.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

NPLs, for sure. REO, maybe. And potentially other assets. But NPLs is probably the major focus right now.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, great. And then just maybe an update on the timing of fundraising. You guys mentioned in the press release Mezz Fund IV, Principal VI and EIF III -- what your sense is for the fund size targets on those. And over what timeframe do you think you can raise that?

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

On the Mezz IV and Principal VI, I think that our major fundraising there will effectively be over this quarter. And on the Enhanced Income Fund, was the other one you mentioned --

Brian Bedell - *Deutsche Bank - Analyst*

Yes.

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

It's just gotten started, and good momentum so far. I think that will carry on into the second half of the year. But I think we will be able to ramp up and talk about where we are in Principal VI and Mezz IV probably in the next quarterly call.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, fair enough. Thank you.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

First question is on DoubleLine; just a couple questions here, really. I'm just curious -- with the idea that I'll venture a guess that maybe the best investment the organization has ever made, a fund within the fund route. Is there any mechanism by which DoubleLine can call your stake down the road or, conversely, you put your stake to them down the road?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

No.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. That's a good thing. I guess also along those lines, and maybe this is for Jay, obviously they play in a different part of the fixed-income world than you guys do. But you've seen across the industry more traditional fixed-income managers edging down towards your space somewhat. I'm just curious how you think about any kind of joint opportunities with DoubleLine. Or how do you actually prevent stepping on each other's toes at the margin a little bit?

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

Well, and just to state the obvious, we are really pleased with our investment in DoubleLine. We have a good relationship with the whole team over there. It goes back a long ways.

Today, we have not seen either firm stepping on the other's toes. I think you are talking about very large markets with very large opportunities. As you know, DoubleLine is mainly focused in the mutual funds space, at least for now. So it has really not been an issue.

As I mentioned earlier, if you look at our particular senior loan activity, we have been moving a little more up on the capital structure -- higher credit quality, some of our fixed income. And we will continue to look at opportunities to do that. But at the moment I think that we are pleased with the investment in DoubleLine. It's a good working relationship. No current plans to do things jointly together other than learn from one another and applaud one another's hopefully progress.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great. And maybe one last question -- I appreciate the patience. Curious -- with GE's announcement of getting out of GE Capital, and a lot of businesses or assets for sale, what kind of opportunities do you think that creates, if any, for Oaktree, whether it's in terms of reduced competition in some market segments or interesting opportunities to buy assets or businesses? Do you think there's anything interesting in there for Oaktree?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman and CIO*

Well, I'll take that. There are opportunities there, we think. First, we look at it for our funds. There may be some interesting opportunities for our funds to purchase some assets there from GE. But also the GP, Oaktree itself, I think, sees some interesting things as well. So we are in the process. I'm sure many other large firms are also there. We've got some serious interest in a few things, and we will see how things develop.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

That was it. Thanks for taking my questions.

Operator

Chris Harris, Wells Fargo Securities.

Chris Harris - *Wells Fargo Securities - Analyst*

Another question on fundraising -- I know you guys have this $20 billion target for closed-end funds. This is more just to clarify things. You did $9 billion this quarter. Assuming $11 billion is right, is that how we should think about it? Or, excuse me, $11 billion is left?

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

Yes. From the prior guidance, $9 billion against the $11 billion is generally the right way to look at it.

Chris Harris - *Wells Fargo Securities - Analyst*

Okay.

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

$20 billion -- sorry about that. Thanks, David.

Chris Harris - *Wells Fargo Securities - Analyst*

Great, okay. The other variable we are thinking about as everybody is trying to think about the trajectory of your fee earnings is how we should be thinking about the fee rate. So I didn't know if there's any nuances we should be aware of about the new funds coming on, whether they have higher or lower fee rates, management fee rates, than some of the funds rolling off. I know there has been a little bit of a downturn in your fee rate. I know there is probably a lot of moving parts. But any comment or guidance you guys could give on that would be great.

David Kirchheimer - *Oaktree Capital Group, LLC - CFO*

Sure, Chris. And, yes, the fee rate has been trending down over the last year or so for the very high-class reason of raising a lot of capital in the open-end area, where the fee rates are lower. And also the growth in senior loans within the closed-end area. And it's not much of a nuance in terms of as we start earning management fees on the growing amount of closed-end fund capital that we've raised. Those fees are at higher rates. Historically, you can see it has averaged about 1.5%.

And so it will depend on the mix of the funds. The rates do vary, and there are larger mandates that come in at lower rates. And given what I think Jay alluded to in terms of our focus on expanding that part of our clientele, that as we are successful in attracting bigger mandates, that the margin is going to be at an average of the lower fee rate. But that's another high-class issue, where I come from, where you make it up in quantity what you might lose in the rate.

So longer story short, as the capital starts entering fee-generating AUM, that all things being equal, which of course they never are, fee rate would tend to benefit from it. But in the meantime, we are also focused on the open-end product. So that will continue to bring the rates lower. We don't manage, at all, the fee rate. We disclose it to facilitate modeling by you and others. But we focus on investment, performance, clients, and then look at the bottom line that that all produces.

Chris Harris - *Wells Fargo Securities - Analyst*

Understood. Thanks a lot.

Operator

Thank you, Mr. Harris. We have no further questions.

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

Thank you again, everyone, for joining us for this quarterly conference call. A replay of the call will be available for 30 days on Oaktree's website in the Unitholders section of our corporate website, or by dialing 866-435-1319 in the US or 1-203-369-1017 outside of the US. That broadcast will begin approximately one hour after now. Thank you.

Operator

And that concludes today's call. Thank you for participating. You may now disconnect.
