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PRESENTATION

Operator

Welcome and thank you for joining the Oaktree Capital Group fourth 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 - Corporate Communications & IR*

Thank you, Eunice and welcome to all of you who have joined us for today's call to discuss Oaktree's fourth quarter and full year 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 Chief Executive Officer, Jay Wintrob; Co-Chairman, Howard Marks; and Chief Financial Officer, David Kirchheimer. We are happy to take your questions following the prepared remarks.

Before we begin, I want to remind you that our comments today will include forward-looking statements reflecting our current views with respect to, among other things, our operations and financial performance. Important factors could cause actual results to differ, possibly materially, from those indicated in these statements. Please refer to our SEC filings for a discussion of these factors. We undertake no duty to update or revise any forward-looking statements.

I'd also like to remind you that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Oaktree fund. Investors and others should 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'll 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. It may be accessed through the Unitholders section of our website at www.oaktreecapital.com.

Today, we announced a quarterly distribution of $0.47 per Class A unit payable on February 26 to holders of record as of the close of business on February 19. Finally, we plan to issue our 2015 Form 10-K by the close of business on February 26. With that, I would now like to turn the call over to Jay Wintrob.

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

Thanks, Andrea and hello, everyone. The fourth quarter of 2015 was largely a continuation of the trends we experienced in the first nine months of the year. Capping off a strong year for fundraising, we attracted $2.8 billion in the quarter and raised $23.1 billion of new gross capital for the year, a record for any calendar year in the history of Oaktree. Importantly, $17.9 billion was for closed-end funds, which entail long-term capital commitments, as well as relatively higher management fee rates and potential for incentive income.

Certain key quarterly financial metrics, such as management fee revenues and fee-related earnings, grew sequentially in Q4 as we increasingly benefited from closed-end fund capital raised in the last 12 months and more muted growth in expenses.

With respect to incentive and investment income, the weaker and more volatile market conditions experienced in the third quarter persisted in the fourth, culminating in a weak climate for realizations and a gross return of minus 0.1% across our closed-end funds for the full year. The dispersion of our investment performance continued in Q4 as global real estate and some of our European-based asset classes outperformed the more challenged arenas of distressed debt and the control-oriented global principal strategy.

However, it's evident in these times of pronounced market volatility that the benefits of long-term locked-in capital, and the trust of our clients, give Oaktree the important ability to employ a patient, opportunistic and contrarian investment approach. Further, following our strong fundraising year, we have record dry powder of $22 billion, leaving us extraordinarily well-positioned for the growing investment opportunities we're seeing globally.

In 2015, the largest amounts of closed-end capital raised were $10.5 billion for Opportunities Funds Xa and Xb, $2.1 billion for Real Estate Opportunities Fund VII, $1.1 billion for Power Opportunities Fund IV and $1.7 billion for Enhanced Income Funds and CLOs, including leverage.

In the current year, we expect to accept more capital for Opps Xa and Xb, for which we see growing investment opportunities. And beyond Opps, we're also currently in the market with our two European funds, European Capital Solutions and European Principal Fund IV, as well as Infrastructure Fund I and remaining closings for Real Estate Opportunities Fund VII.

Additional areas of product development we currently anticipate this year include our second Real Estate Debt Fund and a new step-out strategy, Value-Add Real Estate, to complement the success of our opportunistic real estate funds. We're also pursuing an advisory mandate with a P&C reinsurance partner, and as usual we will be marketing several of our open-end and evergreen fund strategies, as well as exploring a healthy pipeline of other product and asset growth opportunities.

2015's $23 billion of gross capital raised brought our five-year total to $71 billion across 23 strategies. More important than the magnitude of these numbers is what they say about the trust and confidence our teams have built with our clients over Oaktree's 20-year history. Let me make a few comments about the mix of clients that participated in our recent fundraising. Notably, of the top 10 capital commitments of 2015, six of them came from clients outside the United States. In the most recent Real Estate Opportunities Fund, ROF VII, 62% of the commitments in dollars to date are from non-US clients. Currently, only about 30% of our total AUM is represented by non-US clients, which has been pretty consistent for some time even while our total AUM has grown by 30% in the last four years.

While we have grown our client base nicely here in the United States, we've also seen significant growth in historically underrepresented areas such as the Middle East and in South America. Additionally, Asia and Australia make up an important number of our top commitments by dollar amount, but don't yet represent a large number of client relationships, as we're just now entering a period of enhanced distribution beyond the relatively small number of sovereign wealth funds and institutions we currently serve in those markets. I expect as these relationships mature, this trend of growing our marketing capabilities internationally will benefit more of our funds as it has already done for Opps and Real Estate.

Also interesting, our client mix has been altered over the last four years by growth in insurance companies, sovereign wealth funds and the sub-advising of mutual funds. This reflects the growing diversity of our institutional client base by geographic region, a strong focus on fundraising from some of the largest pools of capital internationally and historical expertise in building strong relationships with sub-advisory partners to broaden the distribution of our open-end funds.

As I reflect on my meetings with clients over the course of last year, I'm struck by how strong the Oaktree brand is and how well our clients understand and find value in our business principles and investment philosophy. And having successfully raised a record amount of capital at what appears to be a fortuitous point in the cycle, we now are very well-positioned to continue pursuing our mission to deliver superior investment results with risk under control and to conduct our business with the highest integrity. And with that, let me turn it over to Howard to discuss the investment environment.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Thank you, Jay and hello, everyone. As you know, 2015 was generally challenging for the credit markets. The carnage in commodities, coupled with macroeconomic concerns about possible slowing growth worldwide, particularly in China, led to broad market volatility, which emerged at the end of the second quarter and persisted through year end. Further fueling the fire, banks' trading capital is at a low ebb, and with more restrictive regulatory policies, the banks are increasingly unwilling to make markets.

With this as the backdrop, riskier assets such as high yield bonds were particularly impacted. Reflecting levels of risk aversion not seen since the financial crisis, the average US high yield bond plunged 10 points in the second half to a price of 87, its lowest level since June 2009. All told, the asset class lost a substantial 8% in the second half, making 2015 the third worst year in our more than 30 years of involvement with high yield bonds.

Twelve-month performance across all of Oaktree's high yield strategies was strong in relative terms with all of them, that's US, European, expanded and global, hitting their primary benchmarks. Our skill in credit selection and an underweight position in energy gave us our superior relative outperformance. For US high yield bonds, however, that still translated into a loss of about 4% for the year.

The start of 2016 marked the 30th anniversary of the beginning of the excellent management of this area by Sheldon Stone and the team he has built. Their outperformance in down markets has given rise to a since-inception gross return that has beaten the benchmark by more than 100 basis points a year for 30 years. That edge compounds into a lot of additional money for Oaktree's long-term clients.

Further, our expertise in high yield bonds contributes to enhanced expertise across the whole credit spectrum. We expect a meaningful uptick in the US high yield bond default rates over the next 12 months with the distressed energy sector contributing most significantly. As I believe you know, over the last five years, the average default rate has been just about the lowest in history for such a period.

Now supporting the expectation that defaults will increase is the sharp increase over the past year in the fraction of the US high yield bond universe trading at or below 70% of par. This stressed cohort grew to 15% at the end of 2015. Additionally, billions of dollars in investment-grade energy and metals and mining debt could be downgraded to high yield status if commodity prices remain depressed.

With a record amount of dry powder and our ability to add value in distressed assets across multiple strategies, including control investing, real estate, strategic credit and of course, most prominently the Opps Funds, we're more optimistic about the ability to find attractive investments than we have been for several years. Risk aversion is back after a five-year hiatus and a burgeoning supply of distressed opportunities is on the horizon.

What started as a largely oil and gas-focused dislocation has generalized into weakness across nearly every commodity sub-segment. And weakness is starting to bleed into other segments of the bond market, including media and retail. While more interesting debt opportunities are on our plate now than at any point in the last five years, we plan to be patient and wait for a pickup in default rates before becoming materially more aggressive in investing our capital.

As Bruce said in last quarter's call, we have been patient in deploying Opps Xa's capital as we expect better bargains down the road with lower-priced, higher-prospective-return distressed debt opportunities. One area we are selectively adding to at the present, however, is Europe. The reasons for our optimism about Europe include Europe's evolving economy and the ECB's quantitative easing, which is supporting credit fundamentals. It's also worth re-emphasizing Europe's lower exposure to known troubled sectors such as commodities and its structurally lower sensitivity to interest rate movements.

Turning to the opportunity in our dedicated power funds, we're hopeful that the sustained decline in commodity prices and the recent turmoil in the energy and public markets will lead to lower valuation expectations on the part of owners of companies we'd like to acquire. In many cases, relatively indiscriminate market dynamics are affecting the perceived value of companies in the sector, even businesses that are not highly correlated with commodity prices. We currently have a very robust pipeline of potential acquisition opportunities and our deal funnel is about as strong as it has been in some time. The bottom line is that this is a good time to have capital to spend.

Back 21 months ago, May of 2014, Bruce and I and the Opportunities Fund team sat around and talked about sizing Fund X and we made the decision at that time to target about $10 billion for the sum of Xa and Xb. And this was based on our belief that the capital markets had been overly generous and indiscriminate in the preceding three or four years and that the economic recovery was both very modest and long in the tooth. And especially that it would be long in the tooth by the time we got around to investing Xb.

We do these things kind of on instinct and judgment. We've got feel and hunch and the reasons are not always documentable at the time. But I can tell you that we're feeling very good at this point about our decision almost two years ago to raise a very substantial Xb fund in reserve. And of course, this is something we've been doing for almost 30 years now in distressed debt funds and these gut decisions have been surprisingly beneficial.

So it's impossible to know with certainty what lies ahead and that's why our investment approach emphasizes risk control and selectivity rather than market timing. We try to size the funds right, but we don't feel that market timing is going to give us our edge. In the short and long run, we continue to believe that avoiding the losers will allow the winners to take care of themselves as it always has in Oaktree's history.

I've often said that it's difficult to be able to accomplish all three key aspects of our business at the same time -- raising capital, investing it wisely and harvesting it profitably. We are rarely able to make great buys and great sells simultaneously and it would be naive to expect otherwise. It's also rarely the case that you can raise capital from your worried investors at the very same time as you have opportunities to invest in a plummeting market. The two rarely go together.

2015 was a strong period for raising assets and we believe we're very well-positioned to begin a period of more aggressive deployment. There's a better chance than we've had for years that opportunities to invest profitably and then harvest will follow in the desired order. I look forward to answering your questions, but now I will turn the call over to David to discuss the financials.

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

Thank you, Howard and good morning, everybody. As expected, management fees turned up in the fourth quarter as two of our new closed-end funds commenced their investment periods and thus started paying full management fees. Fee-related earnings followed suit, also rising from the third quarter level. While down year-over-year, adjusted net income also improved from the third quarter as incentive income rose and the investment loss shrank. Adjusted net income came in at $0.26 per Class A unit for the fourth quarter and $1.62 for full-year 2015, down from $0.61 and $3.22 per Class A unit in 2014, when stronger financial markets produced higher incentive and investment income.

Fourth quarter management fees benefited from investment period starts for $1.2 billion Principal Fund VI and $1.1 billion Power Opportunities Fund IV. They were followed at the start of 2016 by the commencement of investment periods for Opportunities Fund Xa and Real Estate Fund VII, currently at $2.9 billion and $1.5 billion of fee-generating AUM, respectively. Those four closed-end funds boosted management fee-generating

AUM to $79 billion as of year end 2015, up slightly from a year earlier. In fact, our fee-generating AUM has risen in every one of our 20 years, save for one immaterial drop a number of years back. That two-decade-long track record of almost entirely organic growth through market downturns and recoveries is testament to our diversified and expanding array of investment strategies.

Moreover, $42 billion of our $79 billion of fee-generating AUM represents closed-end funds, a record high level for our longest locked-up capital. Plus, we expect more ahead from several sources -- first, remaining capital raises for Real Estate Fund VII and Opps X; second, $12.6 billion of so-called shadow AUM, meaning existing commitments for Opportunities Fund Xb and other funds not yet generating management fees; and third, planned capital raises for European Principal Fund IV, European Capital Solutions Fund and Infrastructure Fund I.

Thus, while there is always churn from closed-end funds in liquidation, as well as redemptions and/or market value declines among funds that pay management fees based on NAV, we're well-positioned for management fee growth. Fee-related earnings in both the fourth quarter and full year benefited from our increased focus on operational efficiency and measures to control costs.

With that, I'd like to thank my resourceful and industrious Oaktree colleagues. Their commitment to continuous improvement in both investing and support areas is a highly valuable byproduct of the alignment of interests that we have cultivated through broad employee equity ownership since Oaktree's founding.

Fee-related earnings are not the only meaningful source of distributable earnings. Also important are our investment income proceeds, which represent realized cash income from our investments in funds and companies. The relatively dependable nature of this cash flow is evidenced by the fact that the $35 million in the fourth quarter represented the 16th consecutive quarter that aggregate investment income proceeds topped $25 million. For the full-year 2015, this cash flow grew $18 million to a total of $149 million. That increase helped offset the year's cyclical drop to $219 million in fee-related earnings.

Investment income proceeds from companies reflect our 20% stake in DoubleLine Capital. In 2015, DoubleLine continued its remarkable growth. As of year-end, Jeffrey Gundlach's firm reached $85 billion of assets under management, up 33% for the year. Since ending its startup phase at year-end 2011, DoubleLine's assets under management have grown at a compound annual growth rate of 42%, driving a 50% CAGR for our investment income proceeds, excluding performance fees. For 2015, Oaktree's 20% stake in DoubleLine yielded income of $55 million and distributable earnings of $52 million on an investment that was carried on our year-end books at $25 million.

With respect to the first quarter of 2016, our known incentive income and fund-related investment income proceeds are zero and $6 million respectively. We expect to recognize incentive income this quarter from tax-related incentive distributions paid by funds that generated taxable income in 2015, but are not yet paying normal incentives. Current indications are that net incentive income, and therefore distributable earnings from tax-related incentive distributions, will be about $35 million.

Finally, our commitment to continuous improvement extends, of course, to our public unitholders. In that vein, I'm pleased to announce that for the 2015 tax year, we expect to accelerate the timing of the annual final K-1 statements to March 31. With that, we're delighted to take your questions. So, Eunice, please open up the lines.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous - Analyst*

Good morning. Thanks. To your comments around maybe still waiting a little bit to get very aggressive, particularly in the Opps Funds, could you give us a little bit of an idea of any kind of broad indicators you look at to suggest that either credit has corrected too far in certain places or has further to go? And in that vein, how do you balance your very, very long history of investing in credit well with the very, very different liquidity environment that it feels like we're in now relative to pretty much any other time given kind of the pullback in the banks? Thank you.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, thanks for that question, Patrick. I think that there's no one quantitative thing that we follow to tell us how to behave. As I indicated in what I said before, it is really judgmental. We just want to have a feeling as to whether -- how bad we think things are going to get and the extent to which the coming problems are incorporated in prices.

Now, most of the work we do is bottom-up rather than top-down, so we make our decisions based on individual cases, what do we think it's worth and how cheap do we think it is now. And I think we'll always continue to do that. Now we do like to bring our experience to bear and say that this kind of feels like that period, or that period, and think about how they worked out.

Now one thing to take note of is that the average spread on high yield bonds passed the threshold of 800 basis points and we've been having a lot of discussion about that around here. Historically, on average, when you bought high yield bonds when they passed that 800 bps threshold, you did extremely well over the coming one and three years, and especially well relative to treasuries.

Now having said that, however, most of the time when high yield bonds exceeded 800, they went on to exceed 900 and 1000 and 1100, and that's really what we struggle with. And I have to tell you, Patrick, that this is never an easy decision and I have the most vivid memory back in the fourth quarter of 2008 after the bankruptcy of Lehman Brothers -- of course, I was meeting with Bruce several times a day. He had $11 billion in Fund VIIb that he was trying to decide whether to invest and how fast and I've got to tell you one day he would say "I think we're going too slow," and the next day he would say "I think we're going too fast," and the next day he would say "I'm going too slow." So I figured, well, we must be doing it about right.

As I indicated in one of my recent memos, we never feel that great about these decisions when we make them. They are hard decisions and you have to make it without any real concrete milestones and the only thing I can take comfort with is that looking back, all those uncomfortable decisions have pretty much worked out.

Patrick Davitt - *Autonomous - Analyst*

Okay. That's all very helpful. And how do you balance all of that historical knowledge with what feels like a very, very new type of liquidity environment than we've ever really seen?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, it's always something's different, but that's why Twain said history does not repeat, but it rhymes. The great thing, especially for the distressed debt business, but for most of our business as you look across Oaktree, is that our returns don't come from Mr. Market. And particularly in distressed, typically we buy the debt, we go through a restructuring process, the restructuring process kind of crystallizes a value and unlocks it. And after holding for a few years, we tend to start selling when it approaches what we consider full value and then scale out.

But I have to say that we enjoy an enormous luxury that in the strategies where we own the most illiquid assets, we have the most lock-up, and I shudder at the thought of trying to invest in these asset classes without locked-up money and you just couldn't possibly do the right thing. So if we invest Opps Xb and if we start sometime in 2017 or in early 2018, and I don't mean to say I know when it's going to be, that means that that fund has until 2025, 2026, 2027 for their investments to work out, and I fully believe that sometime in that time span, as Ben Graham said, the market will convert from a voting machine to a weighing machine, and sometime in that period we'll get full value if we've bought the right things.

Patrick Davitt - *Autonomous - Analyst*

Great, thank you.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Good morning. First, I think we all understand putting a priority on maintaining the stock's float and liquidity, but I guess a couple more of your peers have recently announced plans to buy back stock. So just wondering if your thinking has evolved, particularly given what would seem like some pretty outsized implied returns or accretion related to share repurchases at these levels?

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

Thanks for the question, Michael. I think our thinking is consistent today as it has been in the past. We've had roughly the same capital management policy for the full 20-year history of the firm starting by insistence on a strong investment-grade rated balance sheet with a lot of liquidity, namely to fund growth in our own fund investments, as well as for strategic or opportunistic growth, step-out strategies and the like. And that continues to be our primary focus.

After that, we tend to distribute basically all of our excess cash to our investors beyond that, in the form of dividends. And yes, we'll continue considering opportunistic, but not formulaic, purchases of our stock as we did just a few months after the IPO in 2012. But even as we consider that, it's in the context of a long-term goal of expanding our public float. So I think at this point the same approach remains intact and that's generally the way we look at it.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. That's helpful. And then just want to make sure I heard you correctly. I think you said you expect to continue to raise money for Opps X. So assuming that's the case, just any sense of the incremental opportunity beyond I guess the $10.5 billion that you've already raised?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, the good news is that we don't have to make that decision anytime soon. We have further time to ruminate about it and see how the trends develop. The 15% of the high yield bond universe, which is selling below 70, much of it is still not low enough to deliver the kind of returns we look for. Further, much of it is highly concentrated in oil and gas, oil service, coal. You still couldn't put together a highly diversified portfolio today in a distressed debt universe. Although, as I mentioned in my remarks, it is starting to broaden out to retail and media.

So we're going to be watching it over the coming months. Look, we never thought 21 months ago that we would be where we are today in terms of the average high yield bond having fallen to a price of 87 and the sentiment being so negative. So I guess the fair way to say it is that the target of $7 billion for Xb was not set based on an expectation of what we're seeing today. And if the current trends continue with this negative cast such as they've taken on since August, then I think our bias would be to increase the size of Xb.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. Okay. And then just finally --.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Excuse me. Let me add the word moderately.

Michael Kim - *Sandler O'Neill - Analyst*

Got it. Fair enough. And then just looking at the open-end fund side of the business, it looks like redemptions picked up on a sequential basis, not too surprising given the market backdrop. But just curious if you could give us an update in terms of performance and/or demand trends as you look across not just the high yield, but also senior loans and emerging market equities?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, first, I will touch on performance in 2015. The good news is that, in most of our strategies, we beat our primary benchmarks and the open-end asset classes are benchmarked asset classes. The bad news is that even the ones that beat their benchmarks produced anemic absolute returns and several of them are -- we're still living in a low return environment in terms of where the risk-free rate is and the capital market line. And so I think that the open-end asset classes, what we used to call the marketable securities, many of them still imply low prospective returns. We're lucky because our asset classes, like high yield bonds and so forth, are the highest prospective returns among all marketable securities in terms of assured returns, or contractual returns, but they are still quite low in the absolute.

So I think this is still a strong trend on the part of many investors to move more into alternatives, and the good news is that if we lose it out of the open-end strategies, there's a good chance we catch it back on the closed-end side where the funds have much higher targeted returns. But it's still one step forward and one step back in some of the open-end asset classes.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Fair enough. Thanks for taking my questions.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Thanks. Good morning, everybody. Howard, picking up on the last point in the open-end channel given the widening in credit spreads and high yield, are you guys starting to see any pickup in institutional demand for the more liquid part of the credit market, which would presumably benefit your high yield strategies given their relative investment performance and particularly outperformance in the downtape?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, I would just say having conversations. Things have changed rapidly and radically and where we were talking about bonds, prospective yield with a handle in the 4s, we're now up to the 6s or 7s for the non-energy, non-commodity sectors. But I would say that, at the institutional level, it just takes time for changes to work their way into conversations and for conversations to turn into business.

Alex Blostein - *Goldman Sachs - Analyst*

Got you. And my second question is for both Howard and Jay, I guess. Jay, given your prepared remarks about the importance of non-US clients as you guys diversify your investor base, and then you highlighted sovereign wealth funds in particular and the growing demand there. So when you think about your fundraising opportunities and you've outlined quite a lot of them for next year and beyond, how important are sovereign wealth funds for continued fundraising there and how is the distress in the oil markets impacting sovereign wealth fund demands?

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

Thanks, Alex. A couple of comments on that. So sovereign wealth funds are an important part of our client base, but not really a vital part I guess you'd say. They represent about 8% of our AUM and that number has been consistent for several years. In terms of growth just in the last year, I think sovereign wealth funds represented about 18% of the growth, so a faster growth rate in our AUM from sovereigns than from our clients in the aggregate.

We've been fortunate. We've added sovereign wealth clients in the last 18 months and in fact, one of our largest sovereign wealth fund clients helped seed one of our step-out strategies. I wouldn't say that we're overly focused on the sovereigns for growth at Oaktree, either in general or any particular strategy. Common sense, you are right, I think some of the Gulf region sovereigns are not as aggressive as they probably once were, but oddly here at Oaktree that's really not how we felt it. We've got sovereign wealth clients in the Gulf and have had commitments from them in the past 18 months. So remains an important part of the mix, not vital, and not any more of a factor than they have been for the past really five, six years.

Alex Blostein - *Goldman Sachs - Analyst*

Okay. Thanks for the color, guys.

Operator

Robert Lee, KBW.

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

Great, thank you. Good morning, everyone. I guess my first question is maybe a strategic question on M&A. So about a year or so ago, I forget exactly when, you had taken on Highstar, and I'm just kind of curious if you are starting to see, with the environment we're in, the continued pressure on having the right infrastructure, operations, systems that LPs want from you guys. If you are seeing, or what your appetite is, for additional Highstar-type transactions going forward to kind of expand the footprint?

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

Thanks for the question. Let me start with a comment or two. So one thing I just want to emphasize is that our primary approach to growth has been and will remain, and we see a lot of opportunity in, organic growth and complementary growth in the form of step-outs of our existing strategies. And I think the opportunities there are probably as robust now as they've been for some time.

I would say that, as the stress has picked up, volatility has picked up, etc. There's more opportunities that have been shown to us or come in over the transom of all sorts of types. There's a lot more even in our corporate development group to look at, think about. I'm not sure we have any greater appetite now than we did a year or 18 months ago, but as you mentioned with the Highstar acquisition, we certainly aren't opposed to growth by acquisition.

Having said all that, I think culturally it's a much better fit for us to grow organically via step-out. We know a lot more about the people we have here than people and the culture of the businesses we might acquire. But as distress picks up, I do think the opportunity set will grow and there will be a lot more things to look at and we shall see what happens.

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

Okay, great. And I was just curious on -- you mentioned as one of your step-outs the Value-Add Real Estate, and several of your peers have started building I guess they would call them core-plus strategies. Sometimes it's pretty hefty asset aspirations. So can you maybe -- is that what we're talking about here when you think about value-add and how you're thinking about size of that kind of opportunity?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Well, I think the important thing is that value-add is still the higher up the alpha trail than core-plus, and we are unlikely to get into any asset classes which are beta-oriented. We consider ourselves to be, I would say, artisans who spend their time adding a lot of value through our investment activities. Real estate for us is a moderate sized asset class with, I think, very, very good performance and modest risk given that our strategy is not dependent on high leverage.

Since John Brady joined us, I think of John as the new kid. He's coming up on nine years now in April. I think we've stuck to that kind of artisanal model and I'm probably going to get some flack around the table for using that word, but we're going to stay with that and I'd love to expand that into the value-add category, but I think we're going to do it on a modest progression.

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

Howard, if I might add to that, a couple things. As of year-end, our Real Estate Opportunities Funds and the whole real estate strategy exceeded for the first time, I think, $9 billion at Oaktree. So just in advance of John's ninth year anniversary. But one of the reasons that we're focusing, as Howard mentioned, on the value-add part of the food chain is it's very, very complementary to what we've been doing. The fact is that over the past several years through our series of opportunistic funds, a lot of relationships have been built with two primary sources of deals -- banks and lenders in general, and borrowers. And that's been the focus of John and his team much more so than the broker community.

The fact is we continue to see flow, and have for some time, that is very consistent with the deals we're used to underwriting, assets with a modest amount of repositioning to be done, for example, or a modest amount of lease-up to be done, but just didn't have the return characteristics as we modeled it out, or that we were seeking in our opportunistic funds. So I think as this lower-for-longer rate environment has persisted, as certain markets and submarkets of real estate have strengthened globally, the fact is the amount of opportunistic real estate deals has probably leveled off, if not modestly declined, but the amount of value-add just below that in terms of return criteria that are underwritten very similarly, sourced very similarly and very complementary to what we've been focused on for -- really since John arrived -- is quite remarkable.

I've got various market estimates in terms of total size. I'm really not comfortable sharing them because I think people tend to mix up the core-plus and the value-add and sometimes even wonder into the core and you get astronomical numbers, but I think it's fair to say that the addressable market for value-add is significantly larger than the addressable market for opportunistic real estate. And that's one of the reasons we're enthusiastic about this area.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

The only two things I would add to that is, number one, one man's opportunistic is another man's value-add. And as the price goes up, things may slide just on that basis from opportunistic to value-add. And the other thing is that there is no bright line demarcation and that's the attractiveness of our moving into step-outs or adjacencies.

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

This is a good example, Howard, of a step-out strategy that has been as much driven by satisfied LPs than it has been by sort of a group in an ivory tower thinking about what can we do next. The fact is we do have many satisfied long-term clients in our Real Estate Opportunities Funds who would like to deploy more capital in the sector even at modestly lower return thresholds. And I would say this step-out strategy in particular has been driven as much by that as by anything else.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Good morning. This is Mike Needham in for Mike Carrier. You guys mentioned in the prepared remarks P&C advisory mandates, so just wondering if we could get more details on that in terms of just size and timing. And then for Opps X and Real Estate VII, could you just review the timing of fees turning on for both and whether there's anything else on the horizon in terms of just fees turning on?

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

Mike, on the P&C advisory mandate, because we're in a marketing mode, I really can't say anything further on that. But we'll report back on the results of that when we have them.

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

And Opps Xa and Real Estate Fund VII both started their investment periods and thus full management fees as of January 1 of this year for the first quarter. Both remain in fundraising mode, so you should expect the amounts, which I mentioned in my remarks and which are always disclosed in the fund table, to grow through the year, and Opps Xb as Howard indicated is not yet investing and not yet generating management fees, and we don't expect it to do so at least until 2017.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Okay, thanks. And just as a follow-up, the core expenses for 4Q came down a bit both on the compensation and G&A lines. We saw the reclassification of FX, but even with that, the expenses came down nicely sequentially. So what's the right expense base that we should be using going forward? Thanks.

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

Sure. Compensation came down because yet again, third straight year, we had been too conservative for the first three quarters of the year in terms of accruing the annual bonus. So there was a true-down effect, as I would call it, in the fourth quarter. So do not use that fourth-quarter amount as a representative run rate. Instead, take the average of 2015, and I would expect that compensation expense to increase into 2016.

Year-over-year, we essentially had no headcount growth. I don't expect that to continue. I think we'll see a little headcount growth. And we also will start recognizing more compensation expense associated with the Highstar Group as the Infrastructure Fund I is raised and starts generating management fees. That will become later in 2016.

G&A, general and administrative expense, fell in part because of lower professional fees, but there again I would caution against extrapolating into 2016 because I expect that expense to rise in part because of office space expansion in a couple of our key cities. So thanks for asking the question, Mike.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Okay. Thanks.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan Chase - Analyst*

Hi. Still morning here, so good morning. Most of the bigger questions have been asked and answered. I have a couple of teeny tiny ones, which I will just throw in here. First is Opps VIIIb -- still seems to be maybe coming up the J-curve; 1.2 MOIC; I think IRR of 4.3%. How do you guys think that fund is doing? Is it still early enough in its life where we should expect the performance to kind of continue to rebound here, or were there some challenges in the investments that that fund made and maybe it won't kind of reach its hurdle rates?

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

Thanks, Ken, for the question. I think the best answer is it's too early. This is a fund that just entered its liquidation period barely over a year ago, August 2014, and as you can see, as of year-end, still had an NAV of almost $2.3 billion. And so the team continues to work hard to extract value from the investments and, yes, just based on our history and experience, I think it's premature to draw any conclusions, or make any predictions about that fund.

Ken Worthington - *JPMorgan Chase - Analyst*

Okay, great. And then performance in the open-end funds, I think, as you guys mentioned is generally very good -- off somewhat in US convertibles. Maybe any description of why performance isn't as outstanding there as it is in some of your other products. Thanks.

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

Sure. Convertibles, first off, as a market, as you know, has been quite challenged to say the least since the crisis because of the low returns, so it's a shrinking market and it's challenging for our group to maintain a diversified portfolio. And the equity market that that strategy is really beholden to is Russell 2000-type and small cap, and there's also been technical factors because of the shrinking market which has complicated our relative performance. So, yes, it's been challenged performance, but I think that considering all the factors, our team has done a very good job of navigating that.

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

I guess I would add, David, that 2015 was a bit of a repeat of 2014 in the sense that it was really the most equity-sensitive converts that performed the best, and a general part of our philosophy is that we generally don't use the convert market to purchase equity surrogates. I think some of that has reversed, by the way, very early here in 2016. We will see that in the first quarter numbers. I also think that the non-US convert performance was a little different than the US performance. I think it's better than the US performance, worth noting also, but I think probably our aversion to the equity surrogates was likely the largest contributor to our somewhat challenged performance in 2015.

Ken Worthington - *JPMorgan Chase - Analyst*

Okay, great. Thank you very much.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Good morning. Thanks for taking the question. First, just a question for Howard. With high yield spreads today certainly well over 700, 800 basis points at levels typically associated with a recession, but then we see US housing seems strong, improving, jobs are strong. Corporate balance sheets in good shape. Yes, energy is under stress, but I guess just how do you think -- do you think that credit markets and commodities could shake enough that causes corporates broadly to cut back on hiring and CapEx and overall kill animal spirits and possibly bring the US into recession? How are you thinking about this year?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

First of all, Michael, we fired our economist. Actually that's not true. We never had one. But we really don't take a position on questions like that. My general feeling is, and I think I expressed this in "On The Couch", I just don't think that we're in for a recession this year and my feeling is that we've been limping along for several years now with an anemic recovery, and it even seems to be losing energy from that low level.

But having said that, the consumption side is pretty good. I think that the gas savings are allowing people to improve their financial pictures and the services businesses are resilient. Of course, we're not highly dependent on China for purchases of our exports, so -- and again, the last thing I want to do is present myself as an economist. But I just don't think that there's going to be a recession starting this year. Eventually we're going to have recession; we always do, but I just don't think it's imminent and I don't think it's going to be a strong one in large part because we didn't have a strong boom. We didn't have an overexpansion of facilities or of payrolls. And so I think -- people are so down on everything now largely because of the market performance, but I just don't share it.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay. Thanks for that. And then just a question for Jay. We saw Japanese government bond yields fall to near zero earlier today. So as the rate environment goes even longer -- lower for longer -- and we see some chatter about possible negative rates in the US, what are you hearing from your LP investors in terms of how they are thinking about asset allocations and how has that conversation changed say over the past six months? And then just ultimately what could this mean for Oaktree's fundraising? I know you mentioned value-add real estate, but where else do you have capacity?

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

I haven't heard of any significant change from clients about the challenge of achieving certain absolute levels of return. I think relatively speaking whether we're at zero or a little above zero doesn't matter a whole lot. For us, I think where we see the greatest opportunities is, for the most part, exactly where we are. So adding some money to the Opps Funds possibly this year, completing the Real Estate Opportunities Fund VII, but then stepping out to Value-Add Real Estate. Also intend to raise our second Real Estate Debt Fund. Over time, I'm guessing based on some of the remarks that Howard made and I share, I think you'll see people taking a look at the high yield bond market given where it sort of is in terms of spreads over treasuries.

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We remain enthusiastic on Europe, as I mentioned in the prepared remarks, so we continue apace with our fundraising for our two latest European funds, both control investing through European Principal Fund IV and direct lending mainly to the middle market through European Capital Solutions, and then we'll be raising throughout this year our first infrastructure fund with the Highstar team that joined us a little over a year ago, Infrastructure Fund I.

So I think all those we believe will have appeal to the institutional client base and I really don't have any silver bullets for how institutions, especially institutions that have fixed liabilities, if you will, address very, very low rates and possibly negative rates.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

The only thing I would add, Jay, is that I think that high yield in particular is so much more tempting at these yields than it was a year ago.

Michael Cyprys - *Morgan Stanley - Analyst*

And which vehicles would you be potentially using -- investing in that? Would that be the distressed funds, or out of your open-end strategies as well?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

No, high yield is a separate open-end strategy where we have commingled funds in separate accounts for large clients and where we just buy performing debt that we think will not default.

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

Yes, and it's a global strategy.

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

Right.

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

We have three flavors -- US, European and then a combined version that we call Global High Yield.

Michael Cyprys - *Morgan Stanley - Analyst*

But if I could just ask a follow-up on that. Just how are you thinking about the liquidity in the markets for high yield versus the liquidity in those open-end high yield strategies, which I think are maybe 30 or 60-day locks? How do you manage around that, particularly in this environment?

Howard Marks - *Oaktree Capital Group, LLC - Co-Chairman*

I think in all honesty that we try to buy issues that are not going to encounter credit problems. Obviously, we only bet 99%, not 100%. But the other thing is we don't have a lot of hot money. We don't have a lot of retail money. We don't have asset allocators and the money that tends not to come and go, which again the best defense against a lack of liquidity is to not need it.

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

And Mike, I would just add, give a plug to our commitment and success in Europe in the European high yield bond market. So much of the talk, understandably, focuses on the US, but, as you know, Europe is very different, much lower energy exposure and much lower retail investor exposure as well, so they are not buffeted like the US has been by the technical factors of retail outflows. And you can see in the table that our European strategy has really enjoyed great investment success and has been a real good value-add component to our global and expanded high yield strategies and thus helping with flows. They had a very good year in 2015 in terms of net flows, and so our investment in that area for, what was it, 16, 17 years ago is really paying off now.

Operator

Thank you. At this point, we don't have any more further questions. Ms. Williams.

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

Thank you again for joining us for our fourth quarter 2015 earnings conference call. A replay of this conference call will be available for 30 days on Oaktree's website in the Unitholders section or by dialing 888-566-0564 in the US or 1-402-998-0673 outside of the US. That replay will begin approximately one hour after this broadcast.

Operator

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