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OAK - Q4 2016 Oaktree Capital Group LLC Earnings Call

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PRESENTATION

Operator

Welcome and thank you for joining the Oaktree Capital Group fourth quarter 2016 conference call. Today's conference call is being recorded. (Operator Instructions). 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*

Thank you, Laura, and welcome to all of you who have joined us for today's call to discuss Oaktree's fourth quarter and full-year 2016 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; Chief Financial Officer, David Kirchheimer; and Dan Levin, our next Chief Financial Officer effective April 1. We will all be 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 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 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 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 through the Unitholders section of our website at www.OaktreeCapital.com.

Today we announced a quarterly distribution of $0.63 per Class A unit payable on February 24 to holders of record as of the close of business on February 17. Finally, we plan to issue our 2016 Form 10-K by the close of business on February 24. With that I would now like to turn the call over to Jay Wintrob.

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

Thank you, Andrea, and hello to everyone. The fourth quarter of 2016 completed a strong year for Oaktree. We had our best quarterly earnings results in 11 quarters in terms of adjusted net income and we grew ANI by 87% in the full-year.

Highlighting fourth quarter and full-year financial results was strong investment performance resulting in the best quarterly and annual investment income totals since 2013, as well as the addition of $320 million of net incentives created.

Distributable earnings grew 38% in the fourth quarter compared to a year ago and 20% in the full year based primarily on growth in three areas: fee-related earnings; net incentive income; and distributions from our 20% ownership stake in DoubleLine Capital. The distribution we announced today of $0.63 brought the total for 2016 to $2.41 per Class A unit, up 20% from 2015.

Our strong investment performance this past year is a testament to the patience and disciplined focus on fundamentals by our investment teams. A gross aggregate closed-end fund return of 5% in the fourth quarter and 15% for the full-year coupled with strong performance for our open-end and Evergreen strategies highlighted the strength and diversity of our platform, even in market conditions where asset prices are elevated and selectivity and caution are often ignored.

Given the environment, and always considering as paramount what is in the best interest of our clients, asset sales exceeded capital deployment in 2016 in many of our closed-end investment strategies.

In terms of fundraising, 2016 met our expectations. We raised $4.7 billion of capital in the fourth quarter and $11.6 billion for the year, making 2016 the 10th consecutive year in which we have raised $10 billion or more.

I want to highlight two areas where our progress is notable. First, we continue to see strong demand from outside of the United States as fundraising in Asia Pac, EMEA and Latin America comprised 60% of our total funds raised. Second, 2016 was particularly productive in terms of funds raised from high net worth clients and growing sub-advisory relationships. In total we raised $4 billion of capital through these efforts last year bringing our overall assets in these categories to nearly 15% of total AUM.

Looking ahead, in 2017 we expect to continue fundraising for European Capital Solutions, European Principal Fund IV, Infrastructure Fund I and our various real estate vehicles, including Real Estate Debt Fund II and separate accounts for the Real Estate Value-Add strategy. Also we will continue marketing our open-end and Evergreen funded strategies, most prominently High Yield Bonds, Senior Loans and Emerging Markets Debt and Emerging Markets Equities.

In terms of new product development, we will begin marketing an Evergreen vehicle called Real Estate Income Fund, which will focus primarily on value-add and some core plus investments generating higher current income primarily in US commercial real estate markets.

Also we have recently begun marketing a closed-end Middle-Market Direct Lending Fund to capitalize on the experience and relationships of our Mezzanine team. This team has invested over $4.7 billion in private loans, much of which was invested in middle-market, senior secured loans similar in nature to the types of loans the new direct lending strategy will pursue. We see this as an attractive asset class where we can differentiate ourselves with strong credit analysis, competitive origination capabilities and disciplined risk management.

Last, and certainly not least when it comes to new products, we just started marketing our new Global Credit strategy. This multi-strategy product will be led by our Chief Investment Officer, Bruce Karsh. He will be working with the portfolio managers of the component strategies across Oaktree's liquid credit platform, including High Yield Bonds, Senior Loans, Convertibles, Real Estate Debt and Emerging Markets Debt.

We have been managing multi-strategy credit portfolios at Oaktree since 1998, primarily incorporating High Yield Bonds, Senior Loans and Convertibles. For the first time the Global Credit strategy will combine the full breadth of Oaktree's more liquid credit strategies within a relative value framework and dynamic asset allocation process overseen by Bruce.

As Howard will discuss, we live in uncertain times. Despite this, we are confident in having over 60% of our assets under management in long-term investment vehicles which give Oaktree the flexibility to employ a patient and disciplined investment approach even as we reap the benefits of rising markets for existing holdings. Our $20.8 billion of dry powder positions us well for future investment opportunities, whether they are triggered by a general market downturn or idiosyncratic developments.

Included on the list of uncertainties is the possibility of tax reform, including potential significant changes to corporate and individual tax rates, the deductibility of interest expense and acceleration of expense treatment for capital expenditures. It is too early to predict which of these possibilities will come to fruition and to what extent, let alone their implications for our business or our corporate structure.

We are carefully monitoring tax reform conversations and the trial-balloons being floated in Washington and assessing various scenarios. As always, any changes will be considered in the context of what is in the best long-term interest of our unitholders. With that let me turn it over to Howard to discuss the investment environment.

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

Thanks, Jay, and hello, everyone. As you know, 2016 was a year of both challenges and positive surprises. Most markets got off to a terrible start and investors were confronted by numerous uncertainties, such as the Fed's expected multiple rate increases, the continuation of a seven-year-old "long in the tooth" economic recovery, falling oil prices and rising defaults among high yield bonds. All of this was occurring at a time of extremely low prospective returns on bonds and above average valuations on stocks.

2016 felt throughout like a year in which investors had to scratch, hope and pray for decent returns, but it ended up very much an above average year. Years in which total returns are well above average and the worst credits do best can present serious performance challenges for risk-controlled managers like Oaktree. Last year was no exception, but I conclude that our overall investment performance was extremely satisfactory.

Taking both absolute and relative returns into consideration, I am glad to be able to say the performance on all of our 20+ strategies ranged between good and great with no stinkers to pull us down.

I have traditionally defined a good year as one in which we achieve a return that is either high in the absolute or superior to the benchmark or both. By that standard, for example, our 31-year-old record in High Yield Bonds includes only one bad year, 2014 when the benchmark was up 1.9% and we were up 1.7% before fees, neither absolutely high nor benchmark-beating. All the other years' gross returns either exceeded 9% or beat the benchmark.

Doing something like that 97% of the time over a 31-year period is what steady superior investing is all about in my opinion. And thus it pleases me to be able to say that in 2016 the vast majority of our open-end strategies produced returns that again were above their benchmark and/or high in the absolute.

The composite returns on our closed-end and Evergreen strategies likewise ranged from acceptable to outstanding. Retail fund flows seem to be the dominant short-run influence on security prices. Thus markets that are more subject to inflows and outflows are more volatile than those that are not.

Not all of the private markets in which our closed-end funds invest were as volatile on the upside as the public markets in 2016. Our composite gross return for the Distressed Debt strategy in 2016 was 14%, Power Opportunities 15%, European Principal 8% and Real Estate Opportunities 7%. One of our best closed-end fund strategy returns was in Emerging Markets Opportunities for distressed and stressed debt at 36% as it benefited in particular from skillful and timely exposure to Brazil.

Our Evergreen strategies had a strong year. As Value Opportunities, Strategic Credit, Emerging Markets Debt Total Return for performing debt, and Value Equities all generated gross returns of 16% or more.

Looking forward our continuing view is that the world is unusually uncertain and perhaps even more so given the regime change in Washington and the questions surrounding the administration's proposed agenda. We still face some of the lowest prospective returns in history as well as asset prices that I generally describe as being, "on the high side of fair or the beginning of rich".

Lastly, we are still witnessing pro-risk behavior on the part of investors pursuing traditional returns in a low-return world. These four factors, when combined with a generally sanguine economic environment, result in the presence of lots of buyers and few sellers, an absence of desperate sellers and thus a paucity of bargains.

This is the time for increased selectivity and flexibility and that is what comes from moderation in fundraising, as well as patience in deploying our most opportunistic and counter-cyclical funds such as Opportunities Fund Xb.

As we begin 2017 it seems that corporate default rates in the US will remain limited and the supply of public opportunities will be low relative to early 2016. As a result, our current distressed debt funds' focus will likely continue to be on energy-related opportunities and buying bargains from European sellers.

Assuming market conditions stay the same, our current estimate for the earliest we would begin investing Opps Xb is the second half of 2017 with the official inception of the investment period, and thus the commencement of charging management fees on committed capital, likely to start sometime in 2018.

We are very focused on the potential impact of regulatory and fiscal policy changes on certain industries as well as a rising rate environment in the US. Despite today's low rates, we believe there will be many interesting opportunities in the marketplace. Bottom line, we believe it will prove to be good to have capital to spend.

Finally, before I turn the call over to David and Dan to discuss the financials, I want to mark this occasion as this is the last Oaktree earnings call for our employee number one, David Kirchheimer. Oaktree has had an exceptional financial steward for the last 22 years, and while David's retirement has been contemplated for some time, we are sure to miss his tireless attention to detail, extraordinary negotiating skills and mentorship of so many of our finest professionals.

One of those professionals is Dan Levin who we are quite confident will maintain the tradition of high-quality reporting and transparency that we know you value.

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

Hello, everyone, and thank you very much, Howard. I greatly appreciate your kind words. Over my 22 years it has been a great honor and privilege to serve our unitholders and other stakeholders and I look forward to continuing to do in the future as an Oaktree advisory partner.

I have often said, as I do today, at Oaktree no matter how good it has been I believe the best still lies ahead. Among the many reasons are my eminently qualified successor and the team he will inherit on April 1. Thus I am delighted to now pass the financial commentary baton to Dan Levin while also being happy to later field any questions. Dan?

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

Thanks, David. As Jay and Howard described, our quarterly financial results were highlighted by strong investment performance across fund categories. Adjusted net income, distributable earnings, fee-related earnings and economic net income all grew on a quarterly and annual basis.

Three prevalent themes in our results were: one, a disciplined approach to deployment of capital; two, prudent expense management; and three, preparedness if market conditions change.

Management fees rose by $32 million to a record annual $786 million despite a decline of $85 million from closed-end funds in liquidation, as well as our posture as a net seller in certain of our strategies and net outflows in our open-end funds. More than offsetting that headwind was an aggregate $117 million in management fees from new funds such as Opps Xa and Real Estate Fund VII.

The growth of management fees in 2016 occurred despite the fact that $13 billion of our AUM is still not yet generating management fees. This so-called shadow AUM is part of the $20.8 billion of dry powder that makes us well-prepared for future investment opportunities.

Moving to fee-related earnings, for the full-year FRE grew 22% to $268 million reflecting $32 million of increased management fees and $17 million of lower expenses. Managing costs has been a focus of ours over the last couple of years as we have sought to build a stronger and more scalable platform for profitable growth. Additionally, in 2016 we strengthened the alignment of our employees with our unitholders by expanding the use of equity in compensation in lieu of cash.

Incentive income grew 35% reflecting realizations across a variety of funds in Distressed Debt, Control Investing and Real Estate. Additionally, in the fourth quarter we earned $32 million in annual incentive income from Evergreen funds thanks to strong investment returns and Strategic Credit, our Emerging Markets Debt strategies and Value Equities.

Investment income was very strong in 2016 at $221 million, the most since 2013 based on strong fund performance and growth at DoubleLine Capital. DoubleLine accounted for $66 million in investment income, up 20% versus 2015. Our funds? robust investment performance also benefited incentives created and therefore the total accrued incentives, an off-balance-sheet receivable that represents potential future incentive income.

Net accrued incentives grew 17% in 2016 to $947 million or $6.12 per operating group unit. This growth occurred despite the fact that we recognized $1.20 per unit in net incentive income during the year. Unrealized investment income proceeds grew even more, up 43% as the same strong investment performance boosted the mark-to-market value of our general partner stake in Oaktree funds.

Thanks to these big gains, unrealized investment proceeds represented $2.39 of future distributable earnings at year end. Of the total $8.50 per operating group unit of net accrued incentives and unrealized investment income proceeds, 81% resides in closed-end funds that are in liquidation, boding well for distributable earnings and equity distributions over the next few years.

Focusing on current cash flow, we declared a distribution of $0.63 per Class A unit in the quarter and $2.41 for the full-year, up 20% over 2015. Since our IPO in 2012 we have distributed nearly $15 per unit to our Class A unitholders.

In summary, in terms of income, value creation and cash flow, the fourth quarter represented a strong finish to 2016. That said, I want to underscore our prior commentary that future quarterly management fees could have sequential declines or not grow appreciably until the start of Opps Xb's investment period, particularly given the relatively brisk pace of selling by certain closed-end funds that have continued into 2017 as well as the commencement of liquidation periods for several older funds.

With respect to the first quarter of 2017, our known fund-related investment income proceeds are $10 million and we have $8 million of known normal, net incentive income thus far. Additionally, we expect to recognize incentive income from tax-related incentive distributions paid by funds that generated taxable income in 2016 but aren't yet paying normal incentives. Current indications are that net incentive income from tax-related incentive distributions will be about $30 million.

With that we are delighted to take your questions. So Laura, please open up the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Good morning, everybody. David and Dan, congratulations to both you guys again. So maybe in the spirit of David's retirement we will start with an expense-related question. Maybe a little bit of color on comp being sort of light in the fourth quarter.

But I guess more importantly, given the sort of delay on the Xb, and Dan, to your point about sort of the lumpiness on the management fees, can you guys talk a little bit about how you are planning to manage the expense base in 2018 to kind of balance out slightly lower management fee growth outlook? And ultimately what it means for FRE in 2018? Thanks.

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

Sure. Thanks, Alex, for the question. So as you think about comp, we determine comp on an annual basis and so you should really be looking at 2016 comp. And in 2016, as I mentioned in the prepared remarks, we had the benefit of paying a greater proportion of our employees' compensation and equity relative to cash.

As we look out to 2017 we are going to be prudent about managing our expenses, but also investing in the business for the long-term, as we did in 2016 with opening an office in Sydney and hiring investment professionals for a distressed debt team in Asia. So I think you can expect us to continue to invest in our business and continue to be focused on managing our cost, but I would expect that expenses will grow at a modest pace in 2017.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Good morning. Just on the new multi-asset fund managed by Bruce, my impression was that institutional investors often like to do their own asset allocation while this fund seems to be more like a solutions-based product. So who is the target investor for the fund? And as you think about what sort of money you would like to raise in it, how big does the debut fund -- how much could that actually raise? Thank you.

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

I think that large institutions tend to do their own asset allocation. And of course there can be exceptions who are interested in this fund. But I think that the main appetite will come from: number one, institutions that don't feel they have the expertise and there are a lot of those.

And by the way, when you look across Oaktree's business versus how I perceive our peers? business, we have a lot of people who invest $10 million, $20 million, $30 million per fund rather than hundreds of millions, so I think we have a lot of small institutions to whom this will appeal.

I also think it is going to be very appealing to financial intermediaries who understand the value of a diversified offering in terms of the likelihood of producing client satisfaction and the fact that really I think only Oaktree offers this full range of services. And I think that, as to the eventual amounts to be raised, I could turn that over to somebody else to answer but they wouldn't answer either. So I will just say --.

Ken Worthington - *JPMorgan - Analyst*

It seems like it could be a big fund; it seems like it has a lot of capacity. Maybe that is a better way to think about it.

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

Well, we do think that this could be substantial and from zero shortly a couple years out we think that it could be a very meaningful number. By the way, when I was mentioning the merits of this product, I also should have said that nobody else has Bruce Karsh managing a product like this with the kind of breadth and experience he has had. So I would say we are all excited and Bruce is acting like a teenager over the prospect of being involved in this product.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you very much.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Maybe for Howard, just on the investment outlook, you mentioned lower levels or pretty modest levels on default. It seems like we are hearing mixed trends across the economy. I mean you obviously had some energy issues, then it seems like retail, and then potential changes with policy could have some impacts. So I just wanted to get a sense of are you starting to see more challenges out there or is it just too early to say?

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

I don't think the challenges have materialized. The challenges are mostly in one's mind in anticipation of the changes that lie ahead and in recognition of the unusually high unpredictability.

I was talking to an audience last week and I said to them, "name one thing that absolutely can't happen over the next year or two under this administration where anybody would say no, no, that is impossible." And it is just very hard to come up with anything that is impossible and that certainly has to be described as an unusual degree of uncertainty.

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We have had this mantra, move forward with caution, for the last 5.5 years and we think it has served us very well. It has permitted us to be fully invested in an uncertain environment. And I would say to earn very good returns as markets have outperformed on the upside. But we think it is very much the right mantra for today.

And we will continue to move forward, which means we will invest and we will be fully invested where we find good opportunities. But in looking for those opportunities we will apply an unusually high level of caution even for us, a normally cautious firm.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Good morning. Thanks for taking the question. I'm just curious if you could flush out a little bit more about the new credit strategy that you are speaking to that you launched that Bruce is going to be leading, just in terms of I guess who are you targeting on that? It sounds like more institutions.

But what about on the retail side, the vehicles that you are thinking about, 40 Act versus SMA? And also what the economics will be for Oaktree on this just in terms of how you are thinking about the fee rate and what sort of returns are you targeting on this particular strategy? Thanks.

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

Well, I mentioned the fact that we think small institutions and what you might call retail distribution channels probably, I would guess, there will be a 40 Act fund because I think it is a natural. Certainly investment advisors and financial planners -- I don't rule out some contributions from large institutions.

But you know, as I said, this is I think going to be a pretty unique offering because we do have this unusual breadth of High Yield and loans and Convertibles and Real Estate Debt and Emerging Markets Debt and maybe some others. We do have, I think, an unusual reputation in terms of trustworthiness which will permit people to give us the asset allocation decision.

And we believe we can add value to people in three ways: by putting them into unusual asset classes that they may not otherwise access like Emerging Markets Debt; by outperforming hopefully the benchmarks in each of the asset classes; and by moving money among the asset classes as the relative investment opportunities get better and worse. And I think this is something that we can do for people.

Now you asked about the economics. Things like high yield and loans and convertibles in particular are low-fee businesses, low-fee for us. And so the model here will be to bring in large amounts of steady assets at modest fees.

And for as long as we have been in this business, which is well over 30 years, we have had a balance between that kind of business, large amounts of low-fee, steady assets, and usually smaller amounts in high-fee, incentive-potential assets which is more of a performance game. And I think that we will continue to have a balance between the two and that this product will add to the former.

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

If I could just add, Howard, that you can follow our open-end fund or liquid strategy fee rates in the earnings release. And over time we would expect this strategy, because of the relative value process and the asset allocation and reallocation process, to earn some modest premium to that for that activity.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research - Analyst*

Thank you. I appreciate the uncertainty around the regulatory track and tax track, but could you help us frame broadly how you think the potential regulatory pullback could help and/or hurt you? Most specifically from the standpoint of the banks and investment banks becoming bigger competitors again?

And then also on the tax side, are you concerned that the removal of interest rate deductibility could ultimately lead to less distressed opportunity in the long run if the attractiveness of being leveraged becomes lower?

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

I think I said this at the last call and I think it is still germane. So obviously we need to know what form the deregulation that has been discussed ultimately takes to say anything particularly meaningful or insightful, but a couple of facts.

One is Oaktree, as well as our competitors in the field, grew quite successfully over many, many years prior to the era of what is considered heightened regulation. And I don't think there is any reason to believe we won't be very competitive and adjust quickly and effectively to whatever the changes are that occur.

Number two, my own personal view is that the increased flexibility that banks may have under a less regulated environment won't have any immediate or direct impact on the opportunity set that Oaktree pursues. There will be some overlap, there always has been with the banks. But again, we have been able to compete in that environment well I believe.

And on the tax front, I am not quite sure exactly what the question was, but my own view is that the uncertainty that Howard spoke about is likely to create more opportunities across all of the Oaktree strategies as deregulation or the lack thereof, or speculation about tax reform that does or doesn't come to fruition, or tweets that occur in the middle of the night unexpectedly create circumstances for unusual investment opportunities. And so, I think net-net it is probably going to be positive, but the form, the timing are highly uncertain.

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

Jay, I think the comment about taxes and the implications for distressed debt supply suggested that if interest payments are not tax-deductible, people won't use as much debt and thus won't overburden companies with leverage and that the overburdened companies won't as often fall into distress.

I think that there is probably some truth in that in the margin. But the most important thing to remember is that the deductibility of interest is not the only reason to use leverage. And I think that the private equity funds, for example, will still be doing highly leveraged buyouts because the supplier of debt capital does not participate in the gains. So regardless of the tax treatment his capital will continue to leverage the returns on the equity capital which is very important.

Then the other thing I want to add is that the banks have been good competitors to buy distressed debt over the 28 years that we have been in that business and it hasn't kept us from having high returns in the past. One of the mottos we have around here, prescient as it turns out, is that supply trumps demand.

And when -- the big funds that we have had which participated in the big crises in debt and produced very high rates of return, which are of course available in the records -- these were all periods in which when we were raising the funds people said, "well won't X or Y or Z or demand from the banks be an impediment to your obtaining bargains"?

And when the supply became massive in the panic and the meltdown, the adequacy of the supply was never a problem and the participation of other buyers was never a problem. So we think, as Jay said, that we never know exactly what is going to happen, but we believe that we will be able to adapt to it.

Patrick Davitt - *Autonomous Research - Analyst*

Very helpful. Thank you.

Operator

Robert Lee, KBW.

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

Good morning. David, congratulations, best of luck. Dan, you as well. I just had a couple questions -- well, my question -- is a couple of the new strategies you mentioned, Real Estate Income, Middle-Market Direct Lending, are those in open-end or Evergreen form? I'm just kind of curious the structure of those.

And then maybe the second part, I mean a couple of years ago when you were going through the fundraising for Opps X and Xb you did venture to give us some general sense of what your expectations were for fundraising over I think it was probably a year and a half kind of period. So any willingness to kind of venture what you think capital raising could look like say over the next 18 months or so?

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

Rob, let me try to answer that. First of all on the Real Estate Income Fund, that is going to be an Evergreen strategy. And on the Middle-Market Direct Lending Fund, of which there will be a levered and unlevered version, those will be closed-end funds.

In terms of thinking about going out 18 or 24 months and providing a projection of closed-end fundraising, we are not going to do that at this point. What I will say is over many, many years on average Oaktree has raised roughly $10 billion of fundraising in the aggregate or more, and of that we have been roughly at about $6 billion of closed-end fund raising over an extended period of time and that is on average.

We have had some extraordinary periods generally when we have raised our distressed debt funds, but I think that history is probably relevant to try to get some general estimate of what you would expect from us.

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

Well, the only thing I would add, Jay, is that if you look at the record, normally new products don't come out in enormous size initially. And I would -- just to call that to Rob's attention.

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

Great, thank you.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo Securities - Analyst*

So, I wanted to ask you about Xb. I think we are all modeling for Xb to get activated either the end of this year, early next year. It does sound like you guys feel like that is still the decent path. But I guess I am wondering what could go wrong or what could happen for you not to turn it on. And specifically if the environment looks like this a year from now, do you see enough out in the marketplace to actually activate Xb?

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

A comment, then Howard may comment also, Chris. Let me start just to give a little context. The Opps X, which is our on-the-run distressed debt fund, is invested at about 74% of its capital as of the end of the year. And what I think we said in the prepared remarks is that all things equal in this environment, we would expect to start investing some monies out of Xb later this year, but activate the official investment period and the commencement of management fees of course sometime in 2018.

I want to say we have a lot of flexibility in the way Opps Xb was structured. It was, as Howard oftentimes calls it, a rainy day fund. We aren't under any pressure to invest that in this environment any faster than we feel comfortable with. And so, I think that the framework we have given you is our best estimate right now given the circumstances we see. Howard, you may have further comments.

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

Well, Jay, I would just add that, as everybody knows, we are vociferous in asserting that we don't know what is going to happen. And the peak year for defaults was 2009 and 2018 will be nine years later. We think -- and the reason we raised a lot of money for Xb was that we thought by 2017 or 2018 maybe we would be seeing some increase in defaults.

Every year that goes by logically increases the probability, but there are times like today when people say, you know, we are in a virtuous circle. We have an accommodative Fed, we have an expanding economy.

Well, the Fed is accommodating but not too much and the economy is expanding but not too much that it has to be reined in and corporations are doing well in piling up cash and debt has been refinanced and paid down. They will give you 100 reasons why there is not going to be another down cycle again. But invariably there is.

And the question is does it come after 12 years like the gap between 1991 and 2002, or does it come after six years like the gap between 2002 and 2008? These subjects are not subject to science and statistics. My favorite new quote is from the physicist Richard Feynman who said that physics would be much easier if electrons didn't have feelings.

The point is that investors and companies have feelings and that is what causes markets to be radically unpredictable and this one is too. But we think that on balance having an $8 billion-ish fund with substantial fees where we can turn on the fund and turn on the fees whenever we think it's prudent, we think gives us a great advantage. And it always has in past cycles and we think it will again.

But I will end by repeating what I said. We don't know what is going to happen and what we state is our best guess and there is always great uncertainty. Who knows, maybe there won't be any defaults in 2018 because things will be going so swimmingly. It is just that logic suggests that is not the case. Remember that the last few years have been a low default rate environment and yet Opps X is very substantially invested, as Jay says, and performing very well.

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

Don't forget that in that time period that Howard referenced that the Opportunities strategy has become much more global in terms of its footprint. And so, while a lot of our focus naturally falls in the US, that it has a terrific leading presence in Europe and a growing presence elsewhere in the world where the uncertainty doesn't seem to have abated. If anything it might have become more pronounced. So we are well diversified in terms of being able to deploy that fund and others in that strategy.

Chris Harris - *Wells Fargo Securities - Analyst*

Thank you, guys.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Thanks. Good afternoon, guys. Congrats also to David and Dan. Most of my questions have been asked, but maybe one on the build-up of net accrued incentives, the $6.12 per unit and then I guess $8.50 if I have that right, if you include unrealized gains.

Given your comments, Howard, on the environment with valuations being in the fair to the rich side, should we view that -- at least while deployment could be uncertain do you view valuations as such that we might see a pretty significant step up in realizations over the next one to two years?

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

The way the pendulum swings in the markets, we usually assume that at any given time it will either be good for selling and bad for buying or good for buying but bad for selling. The last couple years prior to the last couple months have been unusual in that regard because maybe it was the political uncertainty in 2016, but we went through a long period when it was hard to buy and hard to sell.

But your question is logical. We have seen a high degree of realizations over the last few months at very successful outcomes. And we are announcing realizations every week it seems. That may be a slight exaggeration, but they are coming. And we have seen already this year a few secondaries of the equities we own.

So, yes, basically if things continue the way they are then for a while longer it will be challenging to find pronounced bargains but easier to do attractive realizations.

Brian Bedell - *Deutsche Bank - Analyst*

All right, great.

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

And Brian, just on the accrued incentives balance, 90% of that almost $1 billion of net accrued incentives we have are in funds in their liquidation period. So over the intermediate term I think that bodes quite well for future incentive income, especially if the environment continues to be like it is today and we continue to realize, as Howard said.

Brian Bedell - *Deutsche Bank - Analyst*

That is great. Thanks very much.

Operator

Allison Taylor Rudary, Oppenheimer.

Allison Taylor Rudary - *Oppenheimer & Co. - Analyst*

Good morning and, David and Dan, congrats again to you both. Most of my questions have been asked and answered, but you had spoken a few quarters ago about your infrastructure business. And we now see the new one in the fund table. And at the time you had said that the fundraising effort was taking a bit longer than you had anticipated. But since then infrastructure has received a lot more attention certainly in the press and in DC.

Are you seeing any changes in investor appetite for this class? And has the investment opportunity set grown or changed there, especially outside of power where you have already been very active?

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

Allison, thank you for the question. I think the opportunity set as we see it is as strong as it was at the outset of the fundraise and certainly there has been a lot more media attention and discussion about infrastructure generally. We remain very optimistic and committed to our Infrastructure Fund I. As I mentioned in my prepared remarks, we will continue to fundraise hard on that fund throughout this year.

In diligence some of the larger investors we have talked with have shown an interest in some greater sector specialization, particularly in transportation. And so, we are currently evaluating the possibility of a separate vehicle for that sector specialization and may have more to report on that in our next quarterly update, but we remain optimistic.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Just two things. The fundraising this quarter is notably strong and the open-end funds, you had a big shift there. So just any commentary on what drove that? Or probably more importantly just the outlook there.

For David and Dan, I don't think you mentioned anything on the taxes, so just in terms of the outlook it seems like the environment will be somewhat the same, but just -- I know sometimes you guys give an update if anything changes there.

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

So I think we were pleased this quarter that we had positive net inflows in our open-end funds and we did benefit from a couple large wins that we had this quarter. In terms of the outlook, over the year, we did have net outflows in our open-end funds, but I think we are optimistic that -- we are very focused on the area and I think we are optimistic for 2017 given kind of our current slate of products as well as Global Credit and the possibilities there.

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

The only thing I would like to add, Dan, is we are in a lumpy business. And we have had some big wins lately and they take 6 to 12 months to materialize. And if they take 13 months they end up in the next quarter or year. And so, you have got to smooth out the quarters and look at the underlying trends.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay, that is helpful. Then I guess, David or Dan, anything on taxes?

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

Sorry, will you repeat that? On tax?

Mike Carrier - *BofA Merrill Lynch - Analyst*

Yes, sometimes I think after the year sometimes you say something on the outlook just in case anything is changing.

Dan Levin - *Oaktree Capital Group, LLC - Incoming CFO*

So a couple comments on taxes. First of all you should always look at annual tax rates as opposed to quarterly tax rates because especially later in the year the tax rate can reflect adjustments to prior quarters' taxes. So I'd direct you to our annual tax rates in 2016. In terms of the outlook for 2017, I expect that our tax rates will stay kind of within the range that we have seen since our IPO, so continue to be around those levels.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research - Analyst*

Thanks for the follow-up. One last one on the Global Credit strategy. Is there a comparable fund out there that is more established? It sounds like this could be fairly unique and there may not be. I was just curious.

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

I think this will be unique in that it is our full liquid credit strategies platform. And so, I don't think there will be a specific comparison out there. And I don't think that will be focusing our clients on any one specific benchmark in evaluating our performance, but instead it will be more the type of absolute return we hope to achieve over probably some risk free or other well-known rate.

Patrick Davitt - *Autonomous Research - Analyst*

Great. Makes sense. Thank you.

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

I just want to add one last point on that, Jay. If you look at our experience in the asset classes we are talking about for Global Credit, and you add up the years that we have in those asset classes, my guess is that we have close to 150 years of experience, maybe more. And I think that that -- so when you say will it be unique, I think it may not be the only such fund, but it may be unique in terms of the fact that the managers experienced and in fact pioneered many of the markets.

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

Thank you again for joining us for our fourth quarter 2016 earnings conference call. The replay for this conference call will be available approximately one hour after this broadcast on Oaktree's website in the Unitholders section. You can also access the replay by dialing 877-344-7529 in the US or outside of the US at 1-412-317-0088. Please use the replay access code 10099503. Thank you and goodbye.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
