THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OAK - Q4 2017 Oaktree Capital Group LLC Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2018 / 4:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Andrea Williams *Oaktree Capital Group, LLC - Head of Corporate Communications and IR*

Jay Wintrob *Oaktree Capital Group, LLC - CEO*

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

Dan Levin *Oaktree Capital Group, LLC - CFO*

CONFERENCE CALL PARTICIPANTS

Robert Lee *Keefe, Bruyette & Woods - Analyst*

Gerald O'Hara *Jefferies LLC - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Daniel Jacoby *Goldman Sachs - Analyst*

PRESENTATION

Operator

Welcome, and thank you for joining the Oaktree Capital Group fourth-quarter 2017 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 - Head of Corporate Communications and 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 2017 financial results. Our earnings release issued this morning detailing these financial 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, Dan Levin. We'll 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'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 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 $0.76 per Class A unit, payable on February 23 to holders of record as of the close of business on February 16. Finally, we plan to issue our 2017 Form 10-K by the end of February.

With that, I'd now like to turn the call over to Jay Wintrob.

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

Thanks, Andrea, and thank you to everyone joining this call. I'm pleased to report that the fourth quarter of 2017 completed another strong year for Oaktree. Distributable earnings for the full year increased 36% over 2016, demonstrating the benefits of our platform of increasingly diverse fund strategies. Our 2017 investment performance produced the best annual incentive and investment income totals since 2013, while generating $303 million of net incentives created.

The distribution we announced today of $0.76 brought the total for 2017 to $3.34 per Class A unit, the highest yearly distribution since 2013.

Of critical importance, our team delivered these results in a manner consistent with our mission: to deliver superior investment performance with risk under control and to conduct our business with the highest integrity.

In total, gross aggregate closed-end fund returns of 3% in the fourth quarter and 14% for the full year were complemented by extremely strong performance in our evergreen strategies and a respectable year overall for the open-end funds.

These investment results were achieved against the backdrop of market conditions where defaults were low, liquidity was abundant, interest rates remained near historic lows, volatility was muted, and the prices of most assets rose to historically high levels. In sum, the kind of environment where the benefits of our focus on controlling risk and investing with an ample margin of safety do not become readily apparent.

Given these buoyant market conditions, we continued to be a net seller of assets in 2017, with realizations of $13.1 billion in our closed-end strategies, as compared to capital deployment of $7.1 billion.

In 2017, we made excellent progress in broadening our business. First, with our Real Estate platform, by raising our second Real Estate Debt Fund, which has closed on $1.2 billion to date; and by launching a Real Estate Income Fund emphasizing income-oriented investments sourced across our entire real estate platform.

Second, we significantly expanded our capabilities in direct lending by launching a Middle Market Direct Lending Fund for institutional clients; by completing fundraising for our second European Private Debt Fund; and, most recently, with the Fifth Street transaction through which we became the investment manager of two BDCs, renamed Oaktree Specialty Lending Corp. and Oaktree Strategic Income Corp.

Third, we launched an additional strategy within our Emerging Markets Debt platform, the EM Debt Total Return Fund. And finally, we launched the Global Credit Fund, our newest, multi-strategy credit vehicle.

Looking at 2018, we have positive fundraising momentum on which to build from the expansion of our platform last year and from the repositioning of our Infrastructure fundraising efforts. We have meaningful first quarter closes expected or already completed for Infrastructure, Middle Market Direct Lending, and Special Situations Fund II.

This year we also anticipate launching three next-generation, closed-end funds: Emerging Markets Opportunities Fund II, Power Opportunities Fund V, and our fifth Mezzanine Fund, as well as engaging in fundraising for four of our evergreen strategies: Real Estate Income, Emerging Markets Debt Total Return, Value Equities, and Strategic Credit.

Turning to our open-end strategies, we experienced approximately $3 billion in net outflows in 2017, primarily stemming from our High Yield Bond and Convertibles strategies. We believe these outflows are consistent with where we are in the credit cycle, as we've seen some clients allocate away from these asset classes, particularly high yield bonds, and have seen recent similar trends among US High Yield and Convertible Bond mutual funds and ETFs.

A promising spot for growth among our open-end strategies is our Global Credit Fund. This multi-strategy product -- led by our Chief Investment Officer, Bruce Karsh -- is off to a good start and has completed its first year with investment performance that is well above its benchmark. The strategy currently stands at over $900 million in AUM, and we have a strong pipeline of prospects we hope to close in the coming quarters.

As longtime followers of Oaktree will know, almost all of Oaktree's historic growth has been organic, coming through the launch of step-out products closely aligned with pre-existing strategies. Today we invest in more than 25 strategies across six asset categories. And the geographic reach of our investment teams, investment activity, and clientele is more extensive than ever.

Right now I believe our best opportunities for growth will come from scaling many of these strategies and successfully executing our current fundraising pipeline and judiciously deploying that capital.

For example, Infrastructure, Real Estate, Emerging Markets Debt and Equities, and Direct Lending are all areas that have the potential for significant future expansion. Combined, these Oaktree strategies have grown from $6 billion to almost $25 billion in AUM in the last five years.

Further, our flagship distressed debt and related strategies will grow their fee-generating AUM materially when the credit cycle advances and we experience higher levels of credit stress, defaults, and volatility.

Additionally, our strong balance sheet and continued high level of dry powder, currently at about $20.5 billion, position us well for an upturn in opportunities to invest, whether triggered by a general market downturn or company-specific developments.

Before wrapping up, I'll comment on the implications for our business and our corporate structure of the recently enacted Tax Cut and Jobs Act. As you'd expect, the reduction in the top marginal corporate tax rate from 35% to 21% will positively benefit our after-tax earnings.

By way of example, if the new tax law had been in effect for 2017, the tax rate for Oaktree's adjusted net income would have been 8% instead of 11%, as reported.

Regarding our structure, we have no current plans to convert to a C Corp, but we'll continue to monitor developments in this space. As always, any structural changes will be considered in the context of what is in the best long-term interests of our unitholders.

And with that, let me turn the call over to Howard to discuss our investment performance and the market environment.

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

Thank you, Jay. Hello, everyone. As you all know, 2017 was a year of very positive developments in most markets. An improving economic outlook, strong corporate profits, and anticipation of the year-end Tax Cuts and Jobs Act put investors in a bullish mood. While all the major asset categories finished the year in positive territory, equities were the standout globally. And the MSCI World Index was up 23% and the MSCI Emerging Markets Index was up 38%.

It was another year where aggressiveness and pro-risk behavior were rewarded, and therein laid the challenge for a risk-controlled manager like Oaktree. But I'm pleased to report that our overall performance in 2017 was again highly satisfactory. I will mention individual performance for a few of our strategies to illustrate.

Coming off an extraordinary 2016, high yield bonds marched still higher for the first 10 months of 2017. And while a pullback in early November canceled out nearly all the capital gains achieved in the previous three quarters, high yield bonds still managed to deliver respectable, coupon-like returns for the year of about 7% in the US and 8% in Europe. Our High Yield Bond strategies performed slightly below these benchmarks, due in part to their lower exposure to long-maturity bonds and volatility in some of our energy related holdings.

While tax reform should be a tailwind for the overall high yield bond market, it won't have a uniform impact on all issuers. Specifically, companies with high existing tax rates, low debt burdens, and high capital expenditures will benefit the most.

On the other hand, the limitation on interest deductibility will penalize issuers with highly leveraged balance sheets, adding stress to those companies that are already troubled. Indeed, JPMorgan estimates that 73% of CCCs will be adversely impacted by the tax reform. Reflecting our disciplined investment approach, it's our view that the vast majority of the issuers in our higher-quality portfolio will either benefit from, or be no worse off under, the new tax law.

The composite returns for our closed-end funds and evergreen strategies ranged from acceptable to outstanding. The composite gross return for the Distressed Debt strategy was 18%; Power Opportunities, 14%; European Principal, 13%; Real Estate Opportunities, 16%; and Special Situations Fund at 35%.

Last but not least, performance remained strong in 2017 for the Emerging Markets Opportunities strategy for stressed and distressed debt at 27%, following its extraordinarily robust 2016 performance of 36%.

Among our evergreen strategies, Strategic Credit and Emerging Markets Debt Total Return had gross returns of 14% and 19%, respectively. The top performer in the evergreen category was Value Equities, which generated impressive gross returns of 34%, outperforming equity market indices as well as the vast majority of peers.

Now shifting attention to the investment environment, as we begin 2018, corporate default rates in the United States seem likely to remain low, and the supply of distressed public investment opportunities may continue to be limited. As a result, our current Distressed Debt fund's focus on private deals in Europe and Asia continues, as well as attractive opportunities in sectors such as telecom, healthcare, and retail. Should adverse conditions or broad-based volatility arise, we stand ready to transition to an aggressive posture for investing Opps Xb, which has been on the shelf, as you know.

Looking again at the impact of tax reform, for our Distressed Debt and Control Investing strategies, the restrictions on deductibility of interest are expected by many analysts to cause some highly-levered businesses to experience more pronounced cash flow issues and higher default rates, especially when coupled with a rising-rate environment and limitations on usage of NOLs, or net operating losses. These factors should create increased opportunities for us over time.

So where do we stand today versus where we were a year ago on this call? The economy is strengthening, not slowing; and Washington is supporting its progress. Asset prices are even higher than they were a year ago, and valuation metrics have moved up. And in my opinion, the easy money has been made. By that, I mean it's much easier for prices to move from low or fair to full or high than it is to move from full or high to even higher.

Thus, I think the current environment remains mixed: better fundamentally and worse price-wise. The positive near-term economic outlook, the lowness of interest rates, the need of most investors for return, and investor complacency, until the last few days, all seem to suggest that this environment could persist.

On the other hand, the extremely high asset prices, macro-fragility, and risky behavior going on all around us argue for considerable caution. Thus, our portfolio managers continue to hew to the mantra: move forward, but with caution. Being essentially fully invested in carefully selected assets worked extremely well last year and for the several years overall that it's been our mantra. It still seems to be preferable to us going forward.

And now I'd like to turn the call over to Dan to discuss the financials in detail.

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

Thanks, Howard. The fourth quarter was a solid end to a year marked by strong earnings growth, attractive investment performance across our fund categories, and healthy distributions to our unitholders. For the full year, adjusted net income and distributable earnings grew 22% and 36%, respectively. And our distributions of $3.34 per Class A unit were 39% higher than 2016.

A few drivers of this earnings growth are of particular note. One, our highest level of incentive income in four years due to the accelerated pace of realizations in our closed-end funds, capitalizing on the strong markets. Two, the highest level of investment income in four years, reflecting our strong balance sheet, our funds' performance, and the growing income from our 20% ownership in DoubleLine Capital. And three, our continued focus on prudent expense management.

Management fees declined $38 million or 5% in 2017 to $747 million, primarily due to our posture as a net seller in the majority of our closed-end strategies, which has reduced our closed-end, fee-generating AUM. Partially offsetting this was the closing of the BDC acquisition in October, which resulted in approximately $7 million of management fees in the fourth quarter.

The full-year decline in management fees was the primary driver of the 13% decline in fee-related earnings to $224 million. Compensation and benefits were roughly flat year-over-year, commensurate with our headcount. And general and administrative expenses were down slightly due to lower placement fees, given the timing of closed-end funds in the market.

Incentive income, net of compensation, grew 77% to $328 million, reflecting a strong pace of realizations across funds in Distressed Debt, Control Investing, and Real Estate.

The largest contributor to net incentive income in 2017 was Principal Fund IV at $170 million. Notably, in the fourth quarter, we earned $21 million of net incentive income from evergreen funds which represented over half of the quarter's total, thanks to strong investment returns in Strategic Credit, Value Equities, and our Emerging Markets Debt strategies.

Investment income was also very strong in 2017 at $249 million, up 13% from the prior year, and representing the strongest year since 2013, based on fund performance as well as growth at DoubleLine. DoubleLine accounted for $71 million in investment income, up 8% versus 2016. We continue to be impressed by the progress at DoubleLine, as its AUM has grown to $118 billion, up 17% year-over-year, as the firm continues to diversify outside of fixed income products, with growth in equity- and commodity-related funds.

Our funds' strong investment performance gave rise to net incentives created of $303 million during the year. Thus, despite the fact that we recognized $328 million in net incentive income in 2017, the net accrued incentives balance stands at a healthy $921 million, or $5.89 per Operating Group unit. This balance is nicely diversified, with 38% from Distressed Debt, 36% from Control Investing, and 21% from Real Estate.

In terms of the balance sheet, we issued $250 million of 15-year senior notes in the fourth quarter and redeemed a similar amount of senior notes that were due in 2019. Through this transaction and a related cross-currency swap that matches this liability with euro-denominated assets on our balance sheet, we were able to reduce the annual interest rate on this debt by over 475 basis points to less than 2%, and to extend the average maturity of our total debt from 6 years to 11 years.

Turning now to some comments about the outlook. As we mentioned last quarter, and consistent with our views on the investment environment, we will continue to be cautious and patient in our deployment of capital. At the same time, we anticipate that the pace of realizations may remain strong.

Therefore, we expect management fees in the first quarter to be modestly lower than the fourth quarter. And we do not expect significant growth in our management fees until the start of the investment period for Opps Xb, which we don't expect to occur before the fourth quarter of this year.

In terms of expenses, while we do not attempt to manage expenses in a direct relationship with management fees on a quarterly or annual basis, we remain focused on making our cost structure increasingly competitive through more efficient processes, technology, and staffing. However, in 2018, there will be approximately $20 million of aggregate growth in compensation and benefits and general and administrative expense related to our infrastructure team that joined Oaktree as part of the Highstar acquisition.

This amount reflects existing expenses of the infrastructure business that were previously paid for by a legacy Highstar fund that stopped paying management fees in the fourth quarter of last year. This increase in income statement expenses doesn't represent an increase in the costs of the infrastructure business, just a change in how the costs are reflected in our financials.

With respect to the first quarter of 2018, at this point, our known, fund-related investment income proceeds are $12 million, and we have $3 million of known, net incentive income thus far.

In addition, as we generally do in the first quarter, we expect to recognize incentive income from tax-related incentive distributions paid by funds that generated taxable income in 2017 but aren't yet paying regular incentives. Current indications are that net incentive income from tax-related incentive distributions will be about $50 million in the first quarter.

In summary, in 2017, our strong investment performance and robust distributions from closed-end funds drove solid financial results, which were highlighted by strong distributable earnings growth. Our over $900 million of net accrued incentives position us well to benefit from current market conditions. And our over $20 billion of dry powder leave us well positioned for investment opportunities as markets change.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Robert Lee, KBW.

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

My first one is really just a little bit more of a modeling question on taxes. But I appreciate the color on what the impact pro forma would have been on ANI. But as we think about your tax rate on FRE through the corporate blocker, how should we think of that for 2018?

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

Rob, thanks for the question. As you think about taxes in 2018, it's ultimately going to be dependent on the composition of the income between blocked and unblocked income.

But to give you some guidance -- and noting that it will depend on that -- I think the way to think about it for both adjusted net income, fee-related earnings, and economic net income is that in 2018 it could be in the low teens. And the benefit from tax reform, a rough estimate of that is that it could be around 300 to 500 basis points a year. So it will depend, but that gives you kind of a framework to think about it.

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

Great, that's helpful. And maybe just a broader question -- and this isn't necessarily related to the sell-off or volatility in the last couple of days -- but maybe going back to Howard's remarks. Given -- just kind of get a sense of where you think LP's heads are at, so to speak, given you had this run-up in asset values. They are still desperate for returns to meet liabilities. I mean, are you seeing any change in their willingness to commit to new strategies? Or does this feel like some of them are still all-in because they are just desperate for returns? Really just trying to get a sense of any feedback and how you feel like LPs are -- what they're thinking about today, just given where we are.

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

It's a great question. We don't have a way to survey our LPs on a real-time basis. I speak to a few every day or week. And, of course, I always hesitate to generalize from that.

Everybody knows what's been going on for the last couple of years. Everybody knows that certainly US institutional investors required returns are higher than people have been able to expect to achieve safely. Now, it happens that they did achieve the returns that they needed, generally speaking, in the last two years, and exceeded them. And, of course, we have tried to help them do it safely.

But everybody knows, and has known, that bonds will yield 1%, 2%, 3%, high-grade bonds, and that stocks are expected to return 5% or 6%, in line with corporate profit growth; and that any way you average 1%, 2%, 3%, 5%, and 6%, you don't get to 7.5%. And yet, they have no choice but to pursue the 7.5%. And I use that figure as typical for the required return for pensions. And so they have set to do, so they can't throw in the towel, as I indicated in my September memo.

They can't say we're going to cash; we'll take zero. They can't say we will take 3%. They have to try to make 7.5%. That has forced them into the kinds of things we do, the alternative asset categories. And, of course, has pushed them enormously into private equity, which has shown very strong fundraising growth.

The challenge will eventually be that all assets are highly correlated. If and when a substantial malaise or correction develops, money put to work now and in the last few years could bring losses; and money put to work aggressively could bring bigger losses.

Struggling with how to invest in a low-return climate that is characterized primarily by decent fundamentals is a challenge, and it continues to be a challenge. I imagine there are some people for whom the declines of the last, I guess it's now 11 days, have increased their concern.

We have tried to create an awareness so that the events like these would not come as a surprise, and they shouldn't have been a surprise. Of course, that doesn't make them any more pleasant. But I think that our investors -- investors in general have no choice but -- on the institutional level, but to hang in there. And I think they will.

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

Great. Thanks for taking my questions. Appreciate it.

Operator

Gerald O'Hara, Jefferies.

Gerald O'Hara - *Jefferies LLC - Analyst*

Perhaps one on the Infrastructure Funds. I guess there was a comment in the prepared remarks about repositioning; if perhaps you could maybe touch on that for a moment. But also how the outlook on those funds may be impacted, either with or without the future potential government package. Thank you.

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

Good morning. Thanks for the question, Gerald. So last year, we repositioned our singular infrastructure offering into two sector-focused funds, Transportation and Energy. We continue to be quite optimistic. I mentioned in my prepared remarks, and we'll announce it when we announce the first quarter earnings, that we expect or have already had material closings in our Infrastructure Funds.

The talk in Washington about investing more and repairing our infrastructure is obviously something that we are supportive of. We're especially focused on the transportation sector: airports, roadways, seaports.

As most people hopefully know, most of these facilities are not owned or administrated by the Federal Government, and really where the action takes place is on the state and local level. That's where we've been focused with dedicated teams of experts and advisors to build networks and sources of opportunities.

We're also focused on those opportunities that are not only, in our view, the most attractive, but are actually the most likely to take place. We have a track record of success with this strategy in places like Baltimore, San Juan, and Austin, historically; and we are currently working on a number of similar opportunities across the country.

But, for us, we continue to believe the state and local policy is going to direct much of the deal flow.

The one other thing I'll comment on is these deals are very chunky. There's long lead times. Oftentimes the ball bounces up and down, a lot of it -- there's a lot of press and publicity about this. We try to avoid that. But we think with our track record, our strong network focused on state and local officials, and the clear need among airports and roadways and seaports, we remain quite optimistic. I think when we announce our fundraising results for the first quarter we'll show some material progress in that regard.

Gerald O'Hara - *Jefferies LLC - Analyst*

Great, thanks. And then maybe one for Dan, as well. I think if I heard correctly in the prepared remarks, comp costs -- comp and benefits were down in the quarter due to lower placement cost. Can you maybe help us think a little bit about how to get a run rate or base case for heading into 2018 on base comp and benefits? Thank you.

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

First I'll start with the quarter, and then I'll move into 2018. So for the quarter, you saw that comp and benefits were down. That really relates to the fact that we decide comp on an annual basis and we estimate it each quarter of the year. And so, towards the end of the year, you can see either true-ups or true-downs depending on where our estimate came out relative to where comp ended up the year. And so you saw -- in this fourth quarter, we saw a true-down of our bonus accrual, and that's kind of why it was below our run rate. So as you think about 2018 for baseline, I'd direct you to the annual amount as opposed to any individual quarter.

On general and administrative expenses for the year, that was down year-over-year because we had lower placement fees. So that's the explanation of the -- over the 2017 versus 2016 difference.

As we look out to 2018, I would provide a couple pieces of guidance. First of all, you could see some modest growth in both our comp and benefits and our general and administrative expenses, driven by a couple factors: one, the fact that we have these new BDCs. And so, we'll have built out the platform to support those BDCs.

Secondly, we continue to invest in the business. And then thirdly, what I mentioned in my prepared remarks, about $20 million related to the infrastructure business of both -- of combined comp and benefits and general and administrative expenses that are not net new expenses. What they are is they're expenses that were previously shared between Oaktree and the legacy Highstar fund. And in 2018, Oaktree is going to be responsible for all those expenses. So that provides you a view on 2018.

Gerald O'Hara - *Jefferies LLC - Analyst*

Great. Thank you for taking my questions.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Jay, you gave some color on just some of the products that you guys are looking to be fundraising in 2018. I guess wanted to get an update, one, on 2018: I think you guys have always been in that range, maybe around $10 billion of fundraising. And so just given the lineup that you have in place, do you think that's a good proxy?

And then probably more importantly, over the next maybe 3 to 5 years, when you look at what you guys have in terms of broadening out that product set, and maybe the market size relative to Oaktree's size, what is the opportunity set in front of you in terms of raising and scaling those funds over the longer-term?

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

Michael, thanks for the question. In terms of the outlook for 2018, yes, I do expect that we'll have higher fundraising in 2018 than 2017, and it very well could end up being around those normalized levels we've reported for the last many years.

I need to caution you though: we don't start the year with the focus of the firm being a targeted set amount of fundraising. We try to focus on raising funds where there is commensurate opportunity to invest, and that's going to be market-driven. But based on momentum coming out of 2017 and some early things we see in 2018, I do expect to be back at those normalized levels, or maybe above in 2018.

In terms of the future, what we know about the future, I see a couple of significant areas of growth in asset classes with large, large markets. I mentioned earlier for us the key areas that we expect to continue growing are Real Estate, the Emerging Markets Debt and Equity platforms, our Infrastructure business, the Direct Lending area, the institutional side or the retail side, for example; and in the open-end area, the Global Credit Fund, which is really a compilation of almost all of our most liquid open-end strategies.

And then at the same time, it's been a while. When we do move to the next phase or phases of the credit cycle, we would expect that we grow our fee-generating AUM not only in our Distressed Debt strategy, with Opps Xb on the sidelines for now; but also related strategies that focus on more stressed or distressed strategies in the United States and in the emerging markets.

I think each one of these areas has ample room for growth based on the size of the market, based on the fact that we are not at all huge players in those markets. But again, it's going to be, in large part, driven by market conditions.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks. And then just as a follow-up, maybe Howard, given the backdrop that we're seeing -- whether it's some expectations of higher rates, signs of inflation -- when you look across Oaktree's products from an investment standpoint, how do you navigate this environment versus maybe the last five, seven years? Where it was very muted in terms of shifts in expectations around rate and inflation.

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

Our products are not highly -- I mean, I should say our results are not highly sensitive to interest rate moves. Of course, interest rates run through all asset classes. They are the glue that connects all asset classes to each other. An increase in interest rates, for example, decreases the discounted future cash flow of everything. Having said that, we're not in straight fixed income, where the value of an asset is purely a function of the future interest rates.

And when interest rates go up, sometimes it predicts or is sympathetic with improving credit, which helps our asset classes. We're not concerned for our returns about higher interest rates. But higher interest rates can cool off markets in general. We think they would, and we think that markets reasonably, as you know, have thought needed some cooling off.

On the third hand, when our traditional products offer higher returns than they have in the recent years, that is higher yields, when the handles on high yield bonds and senior loans are not sub-6, sub-5, I think we will get more money in.

Jay mentioned in his remarks some outflows in the open-end area as people allocate away from these asset classes. It's very hard for us to realize, for somebody who's been in high yield bonds for 40 years; but people allocating away from high yield bonds because the promised yield does not help them achieve their required rate of return. You need 7.5%, and high-yield pays 6% or so. Let Treasuries get up to 3% and 4%, and let high yield get up to 7%, 8%, 9%, maybe we'll see inflows rather than outflows.

I would say that in -- if you were going to make a model or an equation to predict our results, I don't think that interest -- number one, I don't think that interest rates would be a big coefficient or a factor in that model. And number two, certainly not overwhelmingly negative for us.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

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

I'll just add -- I'll make my long answer just a little longer. As we said in our remarks, if the events of the coming year, like increase in the after-tax cost of debt for highly levered entities -- if that produces more stress and more defaults, that would be a big plus for us. Anything that could accelerate, for example, Opps Xb and introduce the possibility of Opps XI, would be extremely welcome around here.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Alex Blostein, Goldman Sachs. Okay, and he has dropped from the question queue. Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Just wanted to circle back on the C Corp conversion. It sounded like in your prepared remarks that you are not considering converting to a C Corp. Just curious, what would be the scenario where you would consider it? And could you also help us understand the tax leakage if you were a C Corp today in 2018, under the new tax regime, what sort of tax rate would it look like for Oaktree, and how much tax leakage would there be?

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

Michael, we have considered it. We will continue to consider it. I think what we said in our prepared remarks is that we do not plan to do it at this point. I think some of our peers have articulated it pretty well. We know the kind of earnings loss that we would have if we converted, and it's less clear what the multiple benefit would be.

So you've got to weigh a known with an unknown, and then you also need to factor in the fact that any change we do is permanent. We need to have pretty good conviction that any uplift we got would sustain and would not be a temporary benefit.

In terms of what the impact would be: again, like I said about our blended tax rates, it does depend on the character of our income in any period. But I think if you thought earnings dilutions in the teens, that's probably the right way to think about it.

And so that's what I -- at this point, we know what we'll lose. We don't know what the gain will be. I think at this point, our posture is we're going to sit tight, see how things evolve; continue to monitor the situation. There may be other data points that could be useful in the analysis, and we'll continue to assess it.

Michael Cyprys - *Morgan Stanley - Analyst*

Great. Thanks, Dan. And Jay, just as a follow-up, you mentioned earlier having a number of strategies that you think can scale across Infrastructure, Real Estate, Emerging Market Debt and Equities. Just curious, as you look across your LP base, which distribution channels or geographic regions do you think have the biggest room for growth in those particular products?

And what sort of actions do you need to take in order to execute on those sort of initiatives that you outlined? Do you feel you need to hire more distribution teams? And are you set in terms of investment capacity today? Do you feel you have enough? Or what are you doing to build out more investment capacity?

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

Well, you're talking about both distribution and investing. So I'm just going to make a couple of comments, because we have been growing both those parts of Oaktree over the past few years.

In the investing side, first of all, for most of our strategies, we need to have the same size team and breadth of talent here. Whether we're at the high end of our range of invested assets or at the lower end of our range, we can't skimp on that, and we don't.

In the last few years, we've added more investment professionals outside of the United States, and in particularly in Asia Pac which I think is probably fair to say is some indication of, A, where we've needed to build out our team; and B, where we see the potential for a lot of opportunity in the years ahead. And we will continue to build out our investment teams probably with a focus outside of the United States, to some extent.

The same holds true for distribution. We have added distribution professionals, again principally in Asia Pac. Having said that, our view is that we have both distribution professionals in place and investment professionals in place to raise and/or manage significantly larger amounts of investor capital. It really depends on market conditions and market opportunities. I see there being room for growth in all of the three -- what we defined the world as three regions -- the Americas, EMEA, and Asia Pac.

I see that being the case both institutionally and on the retail side. And we will continue to focus, as we best see fit, on the match between the opportunities for prudent investments where we see client demand and have strong client relationships; and, of course, where we have the requisite investment teams well-positioned.

So, it's a diverse effort. We have been growing. And we intend to continue to grow, both on the distribution and investment professional side.

Michael Cyprys - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Alex Blostein, Goldman Sachs.

Daniel Jacoby - *Goldman Sachs - Analyst*

This is Daniel Jacoby filling in for Alex. Sorry about before, and thanks for taking our questions. Just a couple specific ones, drilling down into the realization dynamic.

First, as it relates to Opps VIII, it looks like the fund is getting a little bit closer to paying out incentives, if we look at what needs to be returned to LPs. And it looks like we had some realization or distribution events in the quarter. Can you provide some color with regards to your expectations for timing here? And then just bigger-picture, are there other funds that we should be keeping an eye on, in terms of getting closer to crossing through the waterfall?

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

I think you observed well that we have -- in this environment, with elevated realizations across our closed-end funds, we are making progress across a number of our funds, towards the point where they start paying incentives, i.e., they have returned all of the capital on preferred according to our European-style waterfall.

And so, Opps VIII is a great example. Over the last year, we have distributed more than $1 billion from that fund. It sits at $538 million away from having returned all of its capital in preferred.

As you can imagine, the portfolio is smaller now than it was a year ago, so you could see that it won't continue to distribute at that pace. But we are making good progress there, and I think we will continue to do so over the next few quarters. I think the outlook is promising for that one entering the point where it pays incentives.

It is hard to be too precise about it, because it will depend on individual holdings we have. And as you get later and later into a fund's life, the holdings become more concentrated, and therefore more dependent on one or two or three realization events.

Another fund, to your question, that I would mention is Power III, where we've made some progress, and I think the outlook is promising for us to transition into paying incentives in the nearer term. So I think that's another fund that I'd mention as you look to what are the funds that, in addition to the 26% of our $921 million of net accrued that's currently paying, what other funds are moving to the point that they'll start paying.

Daniel Jacoby - *Goldman Sachs - Analyst*

Thanks, that's really helpful color. And then digging into that 26%, a decent percentage of that looks to be VIIb. And it looks like we had a distribution event in the quarter. Any color as to what happened in the quarter? And then obviously we've talked in the past about there being some more concentrated investments left in that fund. Any incremental detail on the outlook there?

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

Yes. I am not going to get too detailed into individual holdings and realization events in the quarter. I guess as a higher-level comment, I think the commentary that we've made before continues to be accurate.

It's an older fund. The holdings are more concentrated at this point. We are focused on realizing the ones that are at values that we think are close or above where we view fair value. And so we did have a realization event in the fourth quarter, as you mentioned. And over time, we will continue to sell assets, but it will not be a straight line of sales.

Daniel Jacoby - *Goldman Sachs - Analyst*

Got it. Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Andrea Williams for any closing remarks.

Andrea Williams - *Oaktree Capital Group, LLC - Head of Corporate Communications and IR*

Thank you for joining us for our fourth quarter 2017 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 1-412-317-0088 outside of the US. Replay access code will be 10115424. Thank you.

Operator

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