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PRESENTATION

Operator

Welcome and thank you for joining the Oaktree Capital Group Third 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 & IR*

Thank you, Laura. Welcome to all of you who have joined us for today's call to discuss Oaktree's third quarter 2017 financial results. Our earnings release issued this morning detailing these results may be accessed through the Unitholders section of our website. Our speakers today are Oaktree's Chief Executive Officer, Jay Wintrob; and Chief Financial Officer, Dan Levin. We will be happy to take your questions following their prepared remarks.

Before we begin, I want to remind you that our comments today will include forward-looking statements reflecting our current views with respect to, among other things, our operations and financial performance. Important factors 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 also be making reference to certain non-GAAP financial measures. 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 also can be accessed through the Unitholders section of our website.

Today we announced a quarterly distribution of $0.56 per Class A unit payable on November 10 to holders of record as of the close of business on November 6. Finally, we plan to issue our third quarter Form 10-Q next week.

With that, I'll turn the call over to Jay.

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

Thank you, Andrea, and hello everyone. The U.S. markets continued their march upward in the third quarter driven by decent economic results and investor optimism that tax reform and reduced regulations will accelerate growth. Most asset classes appreciated and our funds continued to perform well.

As we've mentioned the last couple of quarters, with steadily higher valuations, we're focused on taking advantage of increased opportunities to sell assets out of our closed-end funds at favorable prices. At the same time, we continue to deploy capital across all our strategies in a disciplined and cautious manner with a focus on controlling risk and limiting the downside.

Our financial performance in the third quarter reflected several key trends. First, a year-over-year decline in management fees due to our posture as a net seller in our closed-end funds, as well as the prudent and cautious pace of investment for many of those strategies. Second, the attractive prospects for our future distributable earnings due to the strong balance of approximately $900 million in net accrued incentives, which has grown over the past 12 months even with the $290 million of net incentive income recognized so far in 2017. And third, our 20% share of DoubleLine Capital's income, which is reflected as investment income, continued to provide meaningful contributions to our diversified distributable earnings profile.

Moving specifically to third quarter investment performance, our closed-end funds generated an aggregate gross return of 3%, bringing returns for the last 12 months to 16%. This strong investment performance coupled with double-digit returns over the last 12 months across our largest evergreen funds, highlight the power of our incentive-creating fund platform.

To illustrate, in the third quarter, we created net incentives of $61 million and net accrued incentives increased by 3% year-over-year to $900 million. Particularly strong gross returns in the third quarter were Emerging Markets Opportunities at 6%, Distressed Debt at 5%, Real Estate Opportunities at 5% and Special Situations Fund I at 9%.

Moving to where we're seeing opportunity in the market, the overall credit environment remained benign during the third quarter. Just three issuers defaulted on $1.6 billion of high yield bonds in the quarter. The most prominent casualty was Toys"R"Us, suffering from a combination of declining market share due to fierce online competition and an overly levered balance sheet. This brings the rolling four quarter high yield bond default rate to roughly 1.5%, less than half the long-term average of 3.8%. Our high yield bond strategies held their own in the quarter and suffered no defaults demonstrating the hallmark of our investment strategy to avoid the losers. The benign credit environment has also resulted in a market where distressed traded credit opportunities are few and far between.

However, an uptick in supply will surface at some point. Why? I think Howard Marks describes it best in his recent cautionary memo "There They Go Again, Again," which portrays the current investment environment as excessive and ripe for a correction due to the following reasons. It's an environment where the uncertainties are unusual in terms of number, scale and insolubility, where prospective returns are just about the lowest they've ever been, where asset prices are high across the board and where pro-risk behavior is commonplace.

It's impossible for us to predict what will catalyze the market's correction, how severe it might be and when it will occur. We are not however waiting around for fat pitches and we continue to look for attractive investment opportunities in select areas including industries experiencing stress or competitive issues.

Retail is one such industry, which took another blow in August when Amazon purchased Whole Foods. Because the retail industry is likely facing more structural than cyclical issues, we're approaching it with extreme caution. Additionally, we continue to explore opportunities sourced from European sellers largely in the form of non-performing loans. While the quantity of these types of opportunities has contracted in the last year, the underlying collateral and corresponding geographies are now more diverse.

We've also been busy examining real estate related opportunities in Asia including Chinese non-performing loan portfolios and we continue to see a decent supply of idiosyncratic, attractive investment opportunities for our many credit, control investing, real estate and other investment strategies. At the same time the market remains conducive to realizing and harvesting assets at attractive prices and on favorable terms across our closed-end funds. Our status as a net seller of assets continued in the third quarter as we realized and distributed more from our closed-end funds than we invested.

Moving on to fundraising, gross capital raised in the third quarter was $2.7 billion, bringing this figure to $12 billion for the last 12 months. During the third quarter, closed-end and evergreen capital raised included commitments of $400 million for our Emerging Markets Debt strategies and $250 million for our European Private Debt strategy as well as some additional capital for Real Estate Debt Fund II.

On the open-end front, we continue to make good progress marketing our Global Credit strategy. During the quarter, our assets in the strategy more than doubled to $650 million with some sizable commitments in our pipeline. For the remainder of this year, closed-end and evergreen funds currently in market include Real Estate Debt Fund II; two dedicated Infrastructure funds, one for Transportation and one for Energy; Middle Market Direct Lending and Emerging Markets Debt Total Return.

As we look ahead to 2018, we're enthusiastic about the prospects for several follow-on funds, such as Emerging Markets Opportunities Fund II, Special Situations Fund II, Power Opportunities Fund V and raises for Evergreen vehicles such as Value Equities Fund. Last quarter, we informed you of Oaktree's intention to become the investment manager of two publicly traded business development companies, BDCs. Last week, the transaction closed and Oaktree became the investment advisor for the two BDCs, Oaktree Specialty Lending Corporation created on NASDAQ under the ticker OCSL, and Oaktree Strategic Income Corporation created also on NASDAQ under the ticker OCSI.

We believe this is additive to all of our direct lending investment activity across the firm and will strengthen our capabilities by providing additional flexibility and scale. We also believe the BDCs will facilitate an increase in the opportunity set of private investments that we can participate in and in turn expand our market presence and origination reach.

And now I'm delighted to turn the call over to Dan after which we'll take your questions.

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

Thanks, Jay, and good morning everyone. The third quarter's financial results reflected continued strong investment performance across fund categories. We feel good about the strength of our business model as demonstrated by healthy growth in adjusted net income, distributable earnings and economic net income for the first nine months of the year.

As we sit in the last quarter of the year, there are some key themes I'd like to highlight. One, significant realization activity in our closed-end funds resulting in approximately $8 billion of distributions and $290 million of net incentive income in the first nine months of the year. Two, a diverse range of strategies contributing to our $900 million net accrued incentives balance. Three, ample dry powder of $21 billion leaving us well positioned for future investment opportunities. And four, the expansion of our product offerings this year by launching the Global Credit Strategy and becoming the manager of two BDCs.

Management fees in the third quarter declined by $8 million or 4% from the same period a year ago, and were down 6% year-to-date. As was the case in the first two quarters of the year, these declines were driven by our closed-end funds where we have been a net seller of assets given the current investment climate. In this environment, our management fees have been pressured by realizations reducing the cost basis and therefore management fee basis of funds in liquidation, and slower deployment impacting the management fees of funds that charge on drawn capital and delaying the start of the investment period for funds that charge on committed capital. However, this same environment provides an attractive backdrop for growing the value of our net accrued incentives and our balance sheet investments, which bodes well for future distributable earnings.

Moving to fee-related earnings, for the third quarter fee-related earnings declined 10% from the same period a year ago and 14% over the first nine months of the year primarily as a result of the lower closed-end fund management fees that I just mentioned. In terms of expenses, we continue to be focused on prudent cost management while still investing in our business to drive future growth. Compensation and benefits and general

& administrative expenses in the third quarter were similar to the prior year period and were down from the second quarter of 2017. The sequential decline in these expenses benefited from a few favorable timing items and therefore the first two quarters of 2017 are more representative of the current run-rate. We take a longer term approach to managing expenses and so you should not expect them to be highly correlated to changes in management fees.

Incentive income was $54 million in the third quarter, primarily from realizations out of Real Estate Opportunities Fund V which started paying incentives this quarter. This year we have seen the benefits of the diversity of our accrued incentives as the Distressed Debt fund was the largest contributor to incentive income in the first quarter, a control investing fund was the largest contributor in the second quarter and a Real Estate fund had that distinction in the third quarter.

Investment income was again strong in the third quarter at $64 million reflecting our funds' solid investment performance, as well as our 20% ownership stake in DoubleLine Capital whose assets under management were $115 billion as of September 30. DoubleLine contributed $18 million to investment income in the third quarter and $69 million over the last 12 months, up 8% over the comparable period.

Our funds' robust investment performance also benefited incentives created and therefore total accrued incentives, an off-balance sheet asset representing potential future incentive income. Net accrued incentives grew 4% sequentially in the third quarter to $900 million or $5.76 per operating group unit. Of this amount, approximately 86% resides in closed-end funds that are in liquidation boding well for distributable earnings and equity distributions over the next few years. The diversity of this pool of potential incentive income is noteworthy with 39% represented by Distressed Debt, 34% by Control Investing and 20% by Real Estate.

For the third quarter we generated $119 million in distributable earnings or $0.74 per class A unit. We declared a distribution of $0.56 per class A unit in the quarter, which brings our distribution over the last 12 months to $3.21, up 43% over the previous 12 month period.

Turning now to some comments about the outlook. We do not believe this is a time in the cycle for reaching for return and so continue to be cautious and patient in our deployment. Therefore, we reiterate our comments from prior quarters that we do not expect significant growth in our management fees until the start of Opps Xb's investment period, which we don't expect to occur earlier than the second half of 2018 given the benign default environment we are currently experiencing. Our pace of investment in our Opps funds, as well as the opportunity to recycle the capital we've already invested, is also informing our cautious outlook for the start of investment period of Opps Xb. With respect to the fourth quarter based on our funds' distributions to date, our fund-related investment income proceeds are $10 million and net incentive income is negligible. In addition, as of September 30 we had about $15 million of net accrued incentives in evergreen funds eligible for recognition in the fourth quarter. Given a modest outlook for incremental realizations this quarter in incentive paying funds, my current expectation for fourth quarter net incentive income is that it will be lower than in the third quarter.

In summary, as I look at the first nine months of this year, I'm pleased with our strong investment performance and our solid financial results highlighted by healthy growth and adjusted net income and distributable earnings. And our dry powder and new products leave us well positioned for what's ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Alex Blostein of Goldman Sachs. Mr. Blostein, your line is open. Is it possible you have your phone on mute, sir? Okay, we'll go on and take a question from Craig Siegenthaler of Credit Suisse.

Jordan Friedlander - *Credit Suisse AG, Research Division - Equity Research Analyst*

Hi, good morning. This is Jordan Friedlannder filling in for Craig. Can you give us an update on the BDC contract purchases from Fifth Street and how long will it take to restructure the portfolio? And are you looking at any other acquisition opportunities?

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

Good morning Jordan, it's Jay. Well, the most important update is that last week we closed on the transaction and we're now the asset manager for the two public BDCs as I mentioned, which have been renamed, re-branded and re-ticker symbolled and have websites reflecting all that. Each of those two public BDCs will have an earnings call next month, there'll be a lot more information at that time. From our perspective, the transaction closed as expected, under terms as expected. We feel very, very good about our stepping into this role. We feel that the financial results will be mildly accretive to the rest of the year. Internally, we're talking about 2 to 3 years to restructure and reposition the portfolios. That could go slower, that could go faster depending on market conditions as well as the individual credits. We have a strategy led by the BDCs' CEO Edgar Lee and his Strategic Credit team augmented by a handful of investment professionals that have joined us from the former Fifth Street and investment professionals that we will be adding over the next period of time. And so we're quite enthusiastic about the prospects of solidifying this platform and its second order effects on the rest of Oaktree in terms of attracting deal flow, being able to look at types of deals and larger deals that could potentially be shared across Oaktree funds and just generally being viewed as a bigger presence in the market. And yes, we continue to look at additional opportunities as we have for some time. Private lending to the middle market is right in the wheelhouse of what Oaktree has done for over a decade. We have a long track record of doing so and achieving good results. Historically it's been done in a handful of our existing investment strategies like Mezzanine Debt which has been renamed U.S. Private Debt, like Strategic Credit, like in Europe through our European Capital Solutions and European Dislocation funds and even some in our Real Estate and Distressed Debt strategies. So this is another pool of assets, a very flexible pool of assets which we're enthusiastic about developing over time.

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

Sorry, and just to add on just general M&A, since our founding, the core of what we've done has always been organic growth through step-out strategies, we are quite opportunistic in terms of M&A. So we look at a lot of things. We just want to be in the flow of what's out there, but I think you should expect us to be selective about what we actually do.

Operator

And the next question will come from Michael Cyprys of Morgan Stanley.

Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Good morning. Thanks for taking the question. Just curious your perspective on how the impact on limiting interest deductibility would impact Oaktree and the investments that you're making and portfolio companies and your perspective more broadly on that?

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

Let me make a general comment. So my own view is that the -- it all depends obviously on the precise gives and takes of tax reform. I don't think we'll see interest deductibility in isolation. And so any comments we make about the impact of interest deductibility could be offset or magnified by other things that occur in tax reform. My own view at a very high general level is that, for example, if there was a limitation or elimination of interest deductibility and there was no grandfathering of existing companies, for those existing companies obviously that would have a significant and clear negative impact. The likelihood of that occurring, your guess is as good as mine. I don't think that will be the outcome in isolation. Additionally, even if not grandfathered, I think debt capital-raising with or without the same level of deductibility will continue because I think it will continue to be lower cost in equity fundraising. It may have some impact on valuations prospectively, given the amount of debt that could be layered on a company if the company wasn't able to deduct those interest payments. But, in a nutshell, there are so many moving parts that to evaluate just the impact of interest deductibility on an existing portfolio, to me, isn't a particularly meaningful exercise, but I do try to observe a couple of things that probably fall into the category of obvious. Dan, did you want to add anything there?

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

Yes, I think we believe that having fixed rate paper in a capital structure could often make sense for the fact that the equity then benefits from excess returns. So you'll still see -- there's still a role for that sort of capital in capital structures. The other thing I observe is, as it relates to our current holdings, the equity holdings we have are less levered than a lot in the industry. So from our perspective, we are less exposed to some of the things that Jay said than others would. But yes, tax reform, there's a lot of proposals out there, I think it will be complicated and as Jay said, it's not just a question of what happened, it's how do they phase that in because some of these changes if they just were implemented immediately would be quite disruptive to companies and could cause a lot of distress and I think people will be thoughtful about that.

Michael Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

And then just as a follow-up question if I could, just curious if you could talk a little bit about your investment process today and how you see that evolving over the next couple of years just given a lot of change is occurring in technology and growing amounts of data, so how are you integrating that today relative to where you'd like to be?

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

Yes, so our investment philosophy today is really very, very much consistent with what it's been for the past 22-plus years at Oaktree. As you know, we're a firm that focuses on fundamental securities analysis, primacy of risk control, consistency and we're a firm that doesn't focus on macro-economic forecasting to a great extent or market timing. In connection with the former, we've always been a significant user of data and information to make those fundamental decisions and we continue to incorporate into the data we use, data gathered by, old means I guess you'd call it, old economy means and new economy means. And certainly we're a big user of information -- information gathered on the web, information that is filtered and evaluated by third parties before we receive it, information that's gathered and consolidated by third parties before we receive it -- and we will continue to emphasize obtaining the best available data in connection with making those bottom up fundamental decisions along with judgment of course too. So our view, my view, is that for almost all of our strategies, this isn't a race to figure out how we can computerize our decision-making processes at Oaktree. Although there may be around the edges for certain strategies, some of that over time, this isn't a matter of replacing our outstanding investment professionals or augmenting our investment professionals with a roomful of data scientists who are culling the web, scraping the web, compiling the web and then handing over huge amounts of data that frankly then needs to be interpreted and understood to our existing investment teams, that we'll be doing some of that on a selective basis. So I think this is really a continued, for Oaktree, evolution of how we obtain data, the type of data that's available, but the process of incorporating it into our investment decision-making, our focus on risk control, fundamentals, understanding where we are in cycles as opposed to predicting where we'll be in the next week or month or year or quarter, et cetera, I think that remains intact and solid at Oaktree.

Operator

Our next question comes from Michael Carrier of Bank of America Merrill Lynch.

Michael Needham - *Bank of America Merrill Lynch - Equity Research Associate*

It's Mike Needham for Mike Carrier. So my question is just on fundraising. Jay, I was hoping you could expand on the opportunities you see outside your typical vehicles. I think you talked about the BDCs then maybe touch on the Global Credit initiative which looks like it's going pretty well. And then really just any markets where you think a new strategy could be possible or could be multiples or where it is today for Oaktree particularly in an area with a bigger pool of capital?

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

Sure. Good morning. Look, I think I'm going to repeat something conceptually I've said before which is I think Oaktree's best opportunities for growth are successfully executing the current fundraising pipeline we've got and of course deploying that capital judiciously, as well as some of the opportunities we're looking forward to next year. But if you think about it and you look at some of the strategies that have been developing in the last three or four years at Oaktree in reverse order I guess you mentioned Global Credit. The whole private debt space in the form of Middle Market Direct Lending, the BDCs, the private debt activity in Europe, the expansion of our real estate platform to focus on real estate income-oriented assets sometimes called Value-Add and Real Estate Debt. The creation and expansion of both the Emerging Market Equities and Emerging Markets Debt strategies, the growth of our senior loan business and the strategic credit business, each one of these areas has significant market opportunity to grow if the opportunity set is out there. And as you know at Oaktree we try to link the amount of capital we raise and the amount of time we spend raising it, frankly, with the market opportunities to invest it. Dry powder is a good thing, we're pleased to have our $21 billion which is a near record for us. We think we are very well positioned to take advantage of opportunities that might come about. We feel like our client relationships are very strong and that we could accelerate that fundraising if the opportunity set changed. The greatest focus we have right now is on careful and cautious and effective deployment of what we have. On the BDC front, if I could just comment because there was an earlier question too, just to put a few dimensions around that, I believe the publicly traded BDC universe is roughly $30 billion in market cap, I may be a little off on that number, and I believe the latest estimates I've seen of direct lending or direct loans of the types that have gone into BDCs and will be suitable for BDCs is exceeding $400 billion. So I just mention that to say these are a very, very large addressable market. How we will address it, that will be in our own patient and disciplined way and at a different point in the credit cycle, we'll probably have more opportunities then than today. Having said that, I like to think of our BDC activity today as in formation, we've got to restructure and reposition these portfolios. We want to do a very good job for the BDC shareholders. We want the share price of the BDCs to more closely reflect the underlying NAV of the BDC portfolios and we think if we accomplish these things over the next period of time, we'll be even better positioned to look at other opportunities that may come about in a different part of the credit cycle as it affects the BDC community. And I could go on and on whether it's Infrastructure investing, Real Estate, Real Estate Debt, et cetera, but I think I'll leave it at that unless you have a specific follow-up.

Michael Needham - *Bank of America Merrill Lynch - Equity Research Associate*

Yes, no, that makes sense. Thank you for the answer.

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

Thank you, Mike.

Operator

And the next question comes from Gerald O'Hara of Jefferies.

Gerald O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Thanks for taking my question. Just trying to touch base on the high net worth segment, obviously it's been receiving a growing amount of attention over the last 12-18 months and hopefully you might be able to add some color on how Oaktree is targeting or thinking about this opportunity and what the upside potential might be there? Thank you.

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

Sure, little bit of a reminder that Oaktree has been a participant in the high net worth space for a long period of time, and we really define our high net worth as part of our overall retail strategy at Oaktree, which has really four prongs to it. It starts with about 9% of our assets being managed either in mutual funds via sub-advisory relationships with the likes of Vanguard, Northern Trust, Barclays, Russell. In fact over 25% of the funds we've raised this year had been through intermediaries or the advisors or we are sub-advisors. The second important part of our retail strategy, and I promise I'll get to high net worth, is our 20% financial interest in DoubleLine Capital, which as Dan commented has been performing well and which we're optimistic and very, very supportive of for its future growth potential. But as I mentioned in the past, it also informs what else we do in the retail sector and a lot of the opportunities that we see and a lot of the opportunities that we evaluate, we compare and contrast to the growth opportunities and what we already have. Third, closing the BDC transaction last week, over time will be another leg of our retail stool as we hope in the long term to do subsequent equity raises either into those two BDCs if possible, well out in the future when we've restructured and repositioned the portfolios and the share price reflects that hard work and quality, but it also is a new audience for Oaktree in terms of shareholders and analysts interested in our direct lending activity in the form of these two public vehicles. And then third, of course, for a long time we've distributed sleeves of our closed-end funds through intermediary distribution to high net worth clients, not only in the United States, but also in Asia and we continue, in fact we've got an offering right now of one of our closed-end funds in the market, it's being distributed to high net worth in addition to traditional institutional clients. And we continue to evaluate the opportunity for further high net worth distribution. One thing to be -- that may distinguish Oaktree from others, may not, is our philosophy is that any investment strategy and any product type that we are interested in offering to retail clients, we would also feel it needs to be of a high enough quality and caliber and consistency that we'd offer to institutional clients and vice versa. Now, there may be slightly different economics to our firm because of different costs of administering and distributing institutional versus retail product, but I don't think you're going to see Oaktree define itself as having one core investment philosophy, one core philosophy of how we treat our clients as partners and think of them first, and a different philosophy dedicated to retail which is of a different nature. I'll just leave it at that. So the market is big, we understand that, the opportunity is large, we understand that, it's something we've been participating in for a long time and I think you'll continue to see us active there.

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

Next question, Operator, please.

Operator

The next question will come from Alex Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Sorry for the phone issues earlier. Couple of questions. Wanted to, a) touch around just the balances strategy, couple of things there. I guess, a) if we look at your just cash treasuries and investments and balance sheet, I mean those continue to build I think the investments bucket I think is at a record around like $1.6 billion. How are you guys thinking about monetizing that over time? Is there room to pay that out, is there room for rejiggering some of the investments or frankly make more kind of smaller-sized acquisitions similar to the BDC deals you have done recently?

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

Thanks, Alex. So a couple notes as you think about our balance sheet. So our BDC transaction did close last week and so if you -- as you think about what you see as our cash and equivalents, we did spend $320 million for those BDCs. So that will impact what you'll see obviously next quarter. So we are using it, our balance sheet, for strategic reasons like that. As you move to the investment balance which you said has grown and fortunately it's been growing primarily because of good performance across our funds, a lot of that is a byproduct of just us investing our GP share in our fund. So we will continue to do that, I think our LPs like that we are well aligned with them and as they benefit, we benefit. We have and we will continue to seed new strategies as we did recently with Global Credit Fund which we seeded off our balance sheet and now we are, as Jay has mentioned, we're raising a fair amount of incremental capital. And so we'll continue to do that across our strategies, as we find that that's generally a good way to start the track record and grow. So we look at the balance sheet as strategic, we're always analyzing what's the right amount, are we getting the benefits and the returns we want from it. But at this point I think it gives us ample resources to be opportunistic like we were with the BDC transaction, as well as pursue organic opportunities through investing and seeding new strategies.

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

If I just might add one thing to that, Dan. We recognize that the excess cash and really liquidity on the balance sheet is probably something that the market does not give us appropriate value for. So there's probably a drag on our value tied to that and we're constantly trying to figure out what's the right decision and process between reducing that and/or what are the opportunities up ahead, what's the opportunity set. We'll continue that process, but I just want to be clear that we understand that we probably don't get full value for that excess liquidity and so it is something we spend a lot of time evaluating and reevaluating.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Yes, that makes sense, that's kind of what I was trying to get at. Great. And then second follow-up, just around the open-end fund business, I think this is something we have been -- we've talked about in the past, but looks like the flow picture remains fairly challenged, then some of that is just kind of maybe where we are in the credit cycle and kind of performance in the high yield bucket on relative basis. But anything that you guys think on the horizon that could meaningfully change the trajectory on the open-end side and flip that category into positive?

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

Yes, we're actually enthusiastic about the open-end category. Let me explain why. First, direct answer to your last -- last part of your question, I think at Oaktree really the Global Credit Fund is the immediate positive, and we've seen that in terms of its growth thus far and we continue to be enthusiastic over time. And as I mentioned we have some significant opportunities in our pipeline. Secondly, we spend a lot of time evaluating the flow picture and asking ourselves why have certain clients redeemed from certain of our open-end funds and the picture continues, for the most part or substantially all, to be tied to a couple of different things. One, as you referred to, the credit cycle is a bit long in the tooth, and a lot of our clients are simply reallocating some of their portfolio away from higher risk assets that are earning a lot lower return today and prospectively, in their view, have lower returns than they did when they started their allocations, and I think that's probably the primary theme in high yield. We also see clients, some clients, reallocating from single investment strategy open-end funds to more of the multi-strategy type products that Global Credit Fund represents, and that's another reason we remain enthusiastic about that. Where we've had some performance challenges, and I talked directly about this in the past, such as U.S. Converts, we've made some changes, both in personnel and process. We are encouraged by very early results. We know we have a long time period to work this through because it's not about 1 quarter or even 1 year results. But I think we're doing a good job of addressing those. By the same token, in that market for example, Converts, you've got a market that's probably shrunk 40% or so since the global financial crisis -- whole market for a variety of reasons -- and you have a market that is dominated by equity surrogates. A couple of data points you might find interesting, the convertible bonds in the Oaktree portfolios are trading at an average price of about $115 and the convertible bonds in the composite indices that we compare ourselves to are trading on average at $150. Now our investment style says that we are not trying to manage converts to give people surrogates to the equity market, and so we're very disciplined about evaluating and for the most part selling bonds that achieve a certain price level or above. In this market, straight up equity market for many years, our performance has lagged, we understand it, we're studying it, we're making some adjustments, but at the core we have our investment style and philosophy and our clients understand that. So I think we're making progress there and I think you'll see that in this environment and especially in a different part of the credit cycle. So we feel very good about the open-end part of Oaktree and we think the Global Credit Fund is an outstanding representative of one of those opportunities and really future growth.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Great. Thanks, Jay, for all the helpful color there. Really appreciate it.

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

Great. 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 & IR*

Thanks everyone for joining us for our third quarter 2017 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 (877)344-7529 in the U.S. or 1(412)317-0088 outside of the U.S. The replay access code is 10112877 and that will begin approximately 1 hour after this broadcast. Thank you.

Operator

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