THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OAK - Q1 2018 Oaktree Capital Group LLC Earnings Call

EVENT DATE/TIME: APRIL 26, 2018 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Daniel Levin *Oaktree Capital Group, LLC - CFO*

Jay Wintrob *Oaktree Capital Group, LLC - CEO*

CONFERENCE CALL PARTICIPANTS

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

Christopher Harris *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

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

Jordan Friedlander *Credit Suisse AG, Research Division - Associate*

Kenneth Worthington *JP Morgan Chase & Co, Research Division - MD*

Michael Needham *BofA Merrill Lynch, Research Division - Associate*

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

PRESENTATION

Operator

Welcome, and thank you for joining the Oaktree Capital Group First Quarter 2018 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 First Quarter 2018 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'll 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 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 we furnished to the SEC today on Form 8-K, and may be accessed through the Unitholders section of the website.

Today we announced a quarterly distribution of $0.96 per Class A unit, payable on May 11 to holders of record as of the close of business on May 7.

Finally, we plan to issue our first quarter 2018 Form 10-Q next week.

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

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

Thanks, Andrea, and thank you to everyone joining the call this morning.

The financial markets experienced a turbulent first quarter of 2018 after the major equity indices reached all-time highs at the end of January. The uncertain trajectory of interest rates and a flattening yield curve weighed on investor sentiment, and long duration bonds were punished amid increasing Treasury yields. In this environment, the 10-year Treasury note, investment grade corporates and The Dow all declined over 2 percent for the quarter, as concern over high valuations, rising interest rates and a possible trade war with China reversed recent bullish sentiment in the markets.

Against this backdrop, Oaktree had a good start to the year in terms of financial and investment performance. Financial performance in the first quarter was highlighted by 22 percent growth in distributable earnings versus the same period a year ago. This growth was driven by higher incentive income and realized gains on our balance sheet investments as we benefited from continued significant realization activity across our Credit, Private Equity and Real Asset strategies.

Turning to investment performance, our closed-end funds generated an aggregate gross return of 2 percent in the quarter, bringing the last twelve month return to 12 percent. Specifically within Credit strategies, the composite gross return for Distressed Debt in the first quarter was 3 percent, European Private Debt was up 4 percent, and U.S. Private Debt and Emerging Markets Debt both returned 7 percent in the quarter.

Within Private Equity, the gross return for Power Opportunities was 4 percent; European Principal 1 percent; and Special Situations Fund 5 percent. Last but not least, performance remained strong across all of our Real Estate strategies, notably Real Estate Opportunities at 2 percent and Real Estate Debt at 3 percent in the first quarter, rounding out strong twelve-month gross returns of 16 percent and 20 percent, respectively, for those two strategies.

Among the evergreen strategies, we had some strong performers with Strategic Credit and Value Opportunities delivering gross returns of 2 and 3 percent, respectively, in the quarter, bringing both strategies' last twelve month gross return to 13 percent.

In the Open-End strategies, quarterly performance was mixed. The best performer, Emerging Markets Equities, outperformed its benchmark by 380 basis points, but U.S. High Yield bonds underperformed given the rising rate environment and the outperformance of shorter-duration bonds, which we underweight in our portfolios.

Overall, I feel good about the beginning of the year from an investment performance perspective, particularly in the closed-end and evergreen funds, as I believe we demonstrated our ability to generate attractive risk-adjusted returns in an increasingly volatile environment for Credit, Private Equity, Real Assets and Listed Equities.

In terms of fundraising, gross capital raised in the first quarter of 2018 was $1.9 billion, bringing this figure for the trailing 12 months to $7.7 billion. Q1 closed-end fundraising of $700 million was lighter than we'd expected, given that we didn't complete closes for our Infrastructure, Middle Market Direct Lending or Special Situations strategies before March 31. As happens on occasion, certain clients needed additional time to finalize their commitments, and so these closes either have already occurred since the end of the first quarter or are expected in the coming weeks.

Commitments for Real Estate Debt Fund II were approximately $400 million in the first quarter, bringing that fund to over $1.6 billion as of March 31. And we expect the final close for REDF II in the middle of the year to bring that fund to over $2 billion, above its original target of $1.75 billion.

Consistent with our comments from last quarter, we've recently launched fundraising for our second Emerging Markets Opportunities Fund. And at mid-year, we'll be launching our fifth Power Opportunities Fund. Later in the year, we anticipate launching our fifth Mezzanine Fund, and we'll continue to engage in fundraising for 4 of our evergreen strategies: Real Estate Income, Emerging Markets Debt Total Return, Value Equities and Strategic Credit.

Moving to open-end funds, we experienced net outflows of roughly $1.7 billion for the first quarter, the majority of which were in High Yield Bonds. As I mentioned, the first quarter was especially volatile for fixed-rate credit. In an environment of rising yields, it's unsurprising that floating-rate, leveraged loans outperformed fixed-rate high yield bonds by a wide margin, and that clients continued to allocate away from High Yield Bonds. An example of this trend can be found among retail high yield bond vehicles, which experienced outflows of $20 billion in the first quarter as compared to an outflow of $21 billion for all of last year.

In contrast to this trend, we see clients increasingly interested in Multi-Asset Credit solutions, as shown by the progress we continue to make with our Global Credit Fund. Global Credit's performance continues to be strong at 170 basis points over its benchmark in the last twelve months, and we expect to raise significant capital for this strategy in the next couple of years.

Additionally, as previously discussed, Oaktree has continued to explore avenues of expansion in the retail investor market. This is evidenced by our BDC acquisition late last year, along with our recent filing of a registration statement for an income-oriented, real estate investment vehicle.

Turning to the investment environment, our outlook for deployment of capital and the prospect for realizations across our closed-end strategies, we still believe we're in the later innings of an up cycle. Howard has been saying we're in the eighth inning for a while now, but we all recognize that we don't know how long the game is going to last. In December and January, the sentiment was near unanimous that it had much longer to go. But in February, a fair number of investors seemed to turn less optimistic.

In aggregate, across the Oaktree platform, we moved forward and we invested $2.2 billion in the first quarter in closed-end funds, a pace slightly above the previous quarter and above the same period last year. We're seeing increased investment opportunities for our European Private Equity and Debt funds as well as a robust pipeline for the Real Estate Debt and Income funds.

Meanwhile, our deployment in Distressed Debt continues at a consistent but muted pace, and our pipeline is mostly focused on private deals in Europe and Asia. Even though volatility picked up in the first quarter, it wasn't enough to shake loose many public market opportunities for us. Nonetheless, we continue to believe that we're inching closer to the time when the supply of attractive distressed debt will expand. We expect to draw on a limited amount of capital from Opps Xb in 2018, but given the current pace of deployment, our expectation is that the start of the investment period, during which fees are charged on the full committed capital, will most likely occur in the latter half of 2019.

At Oaktree, we have 3 main jobs to do: raise funds, invest them wisely and harvest those investments. Rarely is the environment ideal for all 3 activities at the same time. As has been the case in recent quarters, we expect to take advantage of ample liquidity, record levels of dry powder in the industry, low interest rates and high valuations to continue harvesting investments in our closed-end funds on attractive terms. As a result, we expect to continue to be a net seller of assets as we have been for the last 5 quarters. The benefits of this posture are evidenced in the considerable incentive income that drove strong distributable earnings growth in 2017 and the first quarter of this year.

I look forward to answering your questions in a few minutes. But now I'm delighted to turn the call over to Dan.

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

Thanks, Jay, and good morning. As Jay mentioned, the first quarter's financial results reflected the benefits of a strong harvesting cycle within our closed-end funds. Realizations totaled $3.6 billion in the quarter, driving strong incentive income growth and higher realized gains on our balance sheet investments and their strategies from a year ago. Last week, we announced that, starting this quarter, we're including in our management fees and incentive income the portion of earnings attributable to our 20 percent ownership interest in DoubleLine Capital. These earnings were previously reported as investment income.

Similarly, AUM, management fee-generating AUM, incentive-creating AUM and incentives realized or incentives created will also reflect Oaktree's pro-rata portion of DoubleLine's comparable metrics. The new presentation does not impact adjusted net income. However, fee-related earnings will now include Oaktree's pro-rata portion of DoubleLine's earnings for management fees, and distributable earnings will reflect our pro rata share of DoubleLine's income instead of cash receipts. We have recast our historical financial statements for these changes.

The rationale for these changes is simple. DoubleLine's strong investment performance has driven rapid growth, resulting in a 20 percent ownership stake becoming a material component of Oaktree's value. Since DoubleLine is an investment manager similar to Oaktree, we believe the new presentation better reflects the underlying nature of our economics. In addition, the change increases comparability with certain other public alternative asset managers that also own a minority interest in other investment managers.

Focusing again on the first quarter, strong realization activity across our closed-end funds drove the continuation of a number of trends we saw in 2017: one, high levels of incentive income; two, a headwind for management fees; and three, strong distributable earnings and distribution per Class A unit.

Management fees in the first quarter grew 1 percent from the same period a year ago, benefiting from our recent BDC acquisition, additional deployment activity and the start of the investment period in our closed-end funds. These increases were largely offset by realization activity in our closed-end funds in liquidation.

Moving to fee-related earnings, for the first quarter FRE declined 8 percent for the same period a year ago, primarily as a result of $3 million of growth in compensation and benefits expenses and $5 million of growth in G&A expenses. The vast majority of the growth in G&A expenses was the result of placement fees related to our fundraising efforts.

Incentive income grew 60 percent over the year-ago period, benefiting from our increased realization activity, particularly in our Distressed Debt, Private Equity and Real Estate funds. In the first quarter of 2018, we recognized $132 million of incentive income for funds currently paying incentives and $104 million of tax-related incentive income, which is paid in the first quarter of each year from closed-end funds otherwise not yet paying incentives. Both amounts were up considerably from the prior year.

Investment income declined by 70 percent in the first quarter to $13 million, reflecting lower overall returns on our fund investments compared to the prior year, consistent with the general market environment. Adding it all up, in the quarter we generated $160 million of adjusted net income or $0.93 per Class A unit and $194 million of distributable earnings or $1.18 per Class A unit. We declared a distribution of $0.96, which brings our distribution over the last twelve months to $3.59, ranking it as the strongest twelve month period in the last 4 years.

Due to our considerable realization activity driving high levels of incentive income, net accrued incentives declined by 6 percent sequentially in the first quarter and 10 percent over the last year to $868 million or $5.52 per Operating Group unit. Realizations brought about this 10 percent decline despite our having created $262 million of new, net incentives over the last twelve months. Of the total net accrued incentives balance, 83 percent resides in closed-end funds that are in liquidation, boding well for future distributable earnings and equity distributions.

Strong investment performance across the asset classes has resulted in this becoming a diverse pool of potential future incentive income, with 39 percent represented by Distressed Debt strategies, 35 percent represented by Private Equity, and 19 percent represented by Real Assets.

In the first quarter, we extended the maturity of our credit facility. Our $150 million term loan and $500 million revolver now mature in March 2023. We once again had strong support from 13 leading global financial institutions.

With respect to the second quarter of 2018, at this point our known, fund-related investment income proceeds are $10 million, and we have $12 million of known, net incentive income thus far. While incentive income is difficult to predict, my current expectation is that incentive income in the second quarter is likely to be quite modest, potentially lower than any quarter over the past year. This is not a reflection of the intermediate term outlook for incentive income but rather reflects the reality that realization and incentive-paying funds do not occur consistently from quarter-to-quarter.

Looking further ahead, we have 23 percent of our net accrued incentives and funds that are currently paying incentives, and we continue to make good progress on moving certain of our funds such as Opps VIII, Power III and Mezz III towards the point where they will start paying incentive income, which should bode well for future distributable earnings.

As we continue to be disciplined with our pace of investment, we reiterate our comments from prior quarters that we do not expect significant growth in management fees until the onset of Opps Xb's investment period. Our continued high level of dry powder is strong assurance that we are well positioned for any changes in the investment environment, and we plan to continue to invest prudently in growing our platform, primarily by scaling our existing investment strategies and developing new step-out strategies, like Global Credit and Real Estate Income.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Jerry O'Hara of Jefferies.

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

Perhaps one, just on Global Credit, which we just heard you talk about a little bit. If you could perhaps elaborate a little bit on sort of the demand trends that you're seeing there and perhaps the target audience and, even potentially, distribution within that vehicle. That would be helpful.

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

Thanks, Jerry. The short answer is that what we've been focusing on is developing a good track record of performance. As I mentioned in my comments, the -- after the first year anniversary, we're well above benchmark, and that's the most important thing for distribution. We are seeing a lot of interest in the product. We have a nice pipeline of prospective commitments. That's why I mentioned that we expect to raise significant amounts of capital in that strategy over the next couple of years. Right now, we're just shy of $1 billion, and I expect that to grow through the rest of the year. For the most part, our focus now is on institutional distribution. Over time, I think there's likely to be some expansion of our focus to add some retail exposure for that product. And as I think was announced publicly, previously, that strategy is shortly going to be offered in the form of a NextShares vehicle where we'll be a sub-adviser for Eaton Vance, which will be our first retail exposure. That's just about to get underway.

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

Just to add to that, I will say, as we look at the demand that we've seen so far, I think this product has resonated across the different client base that we talk to. So whether it's insurance companies, pension plans, some of the high net worth channels, we've had good dialogue across all of those areas over the past year. We expect to continue to do that through those channels.

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

Great. Maybe just one on the move to integrate DoubleLine into the P&L. One would sort of just be, for Dan, with respect to the annual management fee rates that you all disclosed on Page 12, is that something that you might be able to give us a sense of how to think about? And then just on a related basis, the rationale of being a material contributor, I definitely understand that. It makes sense. But is there anything that I can takeaway or we can takeaway as it relates to holding period of the investment? Is this sort of a little bit the rates are being a little bit longer term? Or perhaps not something that I should be thinking about?

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

Yes. So I'll take the second question, and then I'll take the first part of the question. In terms of the change to DoubleLine, I really do think it's just the 3 items. It's a material component of our business, and we've, over the past few years, tried really hard to make sure that we're highlighting that aspect of our business because it didn't come through clearly in what we disclosed. Secondly, we think that this disclosure change better aligns with the underlying economics. And thirdly, we think as we've looked at comparisons with our peers, we've realized that we think this will enhance the comparability. We think this is the right thing to do because we think it more transparently shows how DoubleLine impacts our business. Does this change how we're thinking about DoubleLine? That continues to be the same that we've said for a while, which is we're really excited about our ownership stake in DoubleLine, we think what they've done with their business is fantastic. We think the future is very bright. They're $119 billion of AUM today. They've grown both their AUM and their contribution to our management fees have grown by over 10 percent over the last year. They really started as a retail business, and they've now had some good success over the last year of diversifying their business into more institutional channels. I wouldn't say it's a change, it's just -- it's consistent with the fact that we've said, we are happy with the ownership, we think that there's a lot of value there, and we think the future is bright for that business.

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

I just want to add on top of that, Dan. Just on your direct question about the fee rates, my only comment is that what we're disclosing currently on the rates only applies to the different Oaktree vehicles: open-end, evergreen, closed-end. For now, what we're disclosing on DoubleLine is simply the receipts of management fees that we're receiving. That may change over time. But for now, we don't have their fee rates as part of our disclosure.

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

Yes. So what you'll see is if you think about what our old disclosure was, we had disclosed just an investment income number. That number now breaks up into 2, it breaks up into a portion that relates to management fees, which is the vast predominance of it, and then a portion that relates to our incentive income, which is a smaller portion.

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

Okay. That's all very helpful.

Operator

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

Michael Needham - *BofA Merrill Lynch, Research Division - Associate*

It's Mike Needham in for Mike Carrier. The first question we've got is just on the growth outlook. I think you're still guiding to roughly flat management fees pre-Xb. I'm just trying to think about some of the things you guys are doing with the bigger successor funds, step-out strategies, retail, Global Credit. So if I think about that, I would think you should be able to drive some AUM growth, excluding the Xb impact. So is it that the guidance assumes some open-end pressure, maybe you're being a little bit conservative? Just trying to think about the trend in fees and the trend in AUM.

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

Yes. I think the biggest driver of it is a couple of trends that we've been talking to you about for a few quarters. One, it's just the fact that we are realizing in our more mature funds at a brisk pace, and the second one is, we are deploying at a more moderate place. And so as you think about the pace at which we're going to be raising successor funds, it has just slowed relative to a different environment. I would say, we are making good progress in deploying our active funds. As Jay mentioned, we're in the market with a number of closed-end funds, but it's really just a by-product of lots of realizations and a more moderate deployment pace.

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

Which -- just to add on to that, Dan. Obviously, that's all predicated on the current investment environment. We've been talking about that quarter after quarter. Should things change, either materially or frankly just somewhat, our outlook could change modestly or more, too. But as Dan mentioned, it's not a matter of outflows. It's really a focus on pace of deployment, which is steady but modest versus taking advantage of the buoyant markets, liquidity, dry powder, low rates, high valuations, et cetera, to sell assets and return capital to clients on favorable terms.

Michael Needham - *BofA Merrill Lynch, Research Division - Associate*

Okay. For the Xb fund, the current fund is getting close to fully invested. It sounds like you might draw on the new fund. In terms of just timing for turning the fees on, what changed from the last guidance that we had to push back that, the fee start date, fairly far into the back half of '19?

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

I think what's changed is, again, the continuation of the investment environment. As I mentioned, there's very little available in public or tradable credit that fits the distressed bucket currently. Most of our focus is in Europe and increasingly, Asia with private deals. And we have a nice pipeline, and there's plenty to look at there. But the fact is, the environment continues to be pretty positive, synchronized global growth, strong earnings, where the benefits of tax cut stimulus are mainly yet to come is my guess. The benefits of CapEx expenditures increasing as a result of that, probably mainly yet to come. And most importantly, defaults remain very low, both in the absolute terms and as a percentage. While there is an equally long list of things to potentially worry about, and concerns which we've also talked about, what we call kindling that could erupt the high levels of debt, the low quality of a lot of the debt in terms of covenants, the upward pressure on rates and possibly inflation, geopolitical risks, et cetera, trade and tariff issues. For now, we're giving you our best outlook based on the situation as is. You're right, we will draw on Opps Xb this year, as I mentioned. It could be earlier or later. We are, basically, fully invested in Opps X. But for the moment, unless we see the available opportunity set increase meaningfully, our outlook is for the latter half of 2019. Just a quick reminder, at Oaktree, the most important constituent is our clients. They are paramount, and they have entrusted us with, especially Xb, this reserve fund of where the responsibility is not only to invest it wisely but to invest it in a timely fashion. And so we don't feel any pressure to move forward any sooner than the opportunity set reveals itself, and we feel good that the opportunity set will be there. In the meantime, as mentioned earlier, we'll continue to deploy about three quarters of $1 billion in the Distressed Debt strategy this quarter. We're reporting strong returns in Opps X, and we'll continue to do so is my current outlook for Xb. It's just that the pace will be muted.

Operator

And the next question comes from Craig Siegenthaler of Credit Suisse.

Jordan Friedlander - *Credit Suisse AG, Research Division - Associate*

This is Jordan Friedlander filling in for Craig. Some of your peers have been aggressively expanding into the Asian markets. Can you update us on your expansion plans in Asia?

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

Sure. Good morning, Jordan. Oaktree's been in Asia for over 20 years. We have 7 offices there, about 60 people, about 30 investment professionals, and it has been our fastest growing region for some time in terms of clients, assets under management, and just recently, we're starting to deploy a bit more especially focusing on China. So we're very bullish on the opportunities in Asia, both on the fundraising side, where you've got growing middle class, growing savings, growing allocations from Asian institutions to alternatives, and we've had a lot of success there. And then again, if you just look at the situation with debt outstanding, in particular, in China and India and how low the default rates are and how large the pool of identified nonperforming and special mention loans are, there will be times in the future where more and more of those opportunities will present themselves. We've also added an office in Sydney in the last year or two. It's where we're adding investment professionals, building a network of relationships with sourcing, deal-sourcing relationships and asset-servicing relationships. We have just shy of 5 percent of our assets, invested assets, that are invested in Asia, and that's been growing. I think it was less than a couple of percent just a few years ago. So we're quite, again, positive both on the fundraising side and the potential for the investment opportunity set growing there. Just to remind you, we have multiple strategies that are active in Asia, the Distressed Debt strategy, the Real Estate strategy, the Emerging Markets Equities and Emerging Markets Debt strategy, Strategic Credit has done some things in Asia, Special Situations in Australia. I'm probably forgetting one or two. Just a reminder that most of our funds are global, and we focus on where the opportunities are around the globe.

Operator

And next, we have a question from Michael Cyprus of Morgan Stanley.

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

Just wanted to circle back on the step-out strategies, a point you had mentioned earlier. It's certainly been a hallmark of Oaktree's growth over the years with EM Equities and Strategic Credit in the more recent years. Just given the platform today, just curious how you're thinking about what could make sense from a step-out strategy perspective? And then similarly, on the inorganic side, how are you thinking about things here now that you've done the BDC acquisition and you had done an Infrastructure platform acquisition a couple of years ago?

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

Thanks for the question. And that's a good reminder that step-outs have really been the hallmark of how we've grown at Oaktree. It's really been the centerpiece of our organic growth strategy. And as I've said before and I just want to say it again on this call, of all the potential opportunities that we can see in the near and intermediate term, the greatest is to continue to buildout, at scale, the step-out strategies that we currently have, while we patiently wait for some of the more distressed, opportunistic strategies to grow and activate more fully depending on market circumstances. So again, for us, it's about growing the Global Credit Fund, the whole real estate platform and, in particular, in recent periods, Debt and Income over opportunistic Real Estate. The Emerging Markets have been and will continue to be a growing opportunity, both in Equities, opportunistic Debt and our Total Return Debt strategy, which we're actively raising. Infrastructure, we expect to be part of the Oaktree growth story over time, especially with our focus in transportation. Then Direct Lending, you mentioned the BDCs, but we continue -- which will be reporting their earnings in a couple of weeks. But we continue to also invest in our Strategic Credit strategies, and we've started investing our Middle-Market Direct Lending Fund, which is also still in fundraise. So I think that all of those strategies have significant growth opportunities, and our job is to try to execute on those profitably and prudently over time, and we will. As far as inorganic strategies, or M&A, I guess, we've always been very, very active looking, examining. We have several areas where I think that could make sense. The fact is in this environment, all things equal with very high prices, a lot of competition from secondary funds, I think that while that's still a possibility, I think the likelihood of that, at scale, is reduced until there's probably a change in the market and in the cycle and in the availability of dry powder to pay very, very high prices. But again, it's still a big part of our activity level.

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

Okay. And just to your point on focusing on scaling the existing strategies that you have, just hoping you could flesh out a little bit more on the distribution initiatives behind that? And how your approach to distribution is evolving? And any sort of color on where you see the biggest runway for growth just in terms of the types of LPs or channels?

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

Yes. Our primary focus remains institutional, and, if anything, the opportunity set there is to focus a bit more on the growing allocations from investors located in Asia. We've done that by adding personnel. If you look at our numbers, the growth rate of our assets raised over the last 2 or 3 years from Asia far exceeds the percentage of our assets under management on a static basis from Asian clients, and I expect that will continue. It won't be a smooth, straight line, but I just think the math will get us there, will focus there. I also want to call attention to our continued progress on retail. Our retail strategy is really a combination of mutual fund, UCITS sub-advisory relationships, which I think now account for about 11 percent of our client AUM, and when you add on top of that distribution through high net worth channels, which has been a longtime activity of Oaktree across many strategies, I think the aggregate of those high net worth, mutual fund/UCITS sub-advisory is now approaching 16, 17 percent of our AUM. And again, in terms of funds raised in a given period, the funds raised from those channels has far exceeded that 16, 17 percent level, so that, for the moment, I think, will continue to drive that percentage of total AUM up. The other thing I want to mention on retail, because I think about it this way and we think about it this way, in terms of deploying resources is DoubleLine. As Dan mentioned, we are enthusiastic, long-term financial partners with DoubleLine, and as we see them continue to make progress and assess the economics and potential for that, that will somewhat guide our allocation of resources to retail. I see retail as a growth area, and I see Asia-Pac as a growth area in terms of at least faster growth than the other possible avenues, which I think will also continue to grow.

Operator

The next question comes from Chris Harris of Wells Fargo.

Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

I appreciate the commentary on DoubleLine. This has clearly been an absolute home run investment for you guys. But I'm wondering how you gauge or think about key man risk over there? If Gundlach were to leave for some reason, what does the bench look like at DoubleLine?

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

I think the bench is strong at DoubleLine, and it's getting stronger. As you know, Jeff Sherman is their co-CIO. There are other executives, I won't go through the names that we're familiar with, that play important roles both on the investing side and in the marketing and back-office side. Jeff is obviously a critical component of the success at DoubleLine and very active and very successful. I think if you really follow their progress, as Dan mentioned, expanding distribution beyond retail to institutional, expanding the product set beyond just the Total Return Bond Fund, where several other strategies are both growing faster and delivering excellent performance, top quartile, five-star performance as well as the expansion of their investment personnel led by Jeff and Jeff. We feel better and better as time progresses that the bench is diversifying with strong personnel, and DoubleLine has a very, very bright future ahead. That's the way we see it.

Christopher Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Okay, great. And then I wanted to ask you guys one question on the market environment. You mentioned earlier short-term interest rates going up potentially a problem down the line for maybe some companies that are over-levered. Are you guys seeing any evidence of that in the market today? And if not, at what level of short-term interest rates you think that really becomes a problem?

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

Yes. Great question and I had surveyed several of our portfolio managers to get a feel for this. The way I'd sum it up is as follows - for the most part, the increase in volatility in the equity markets and the rise in short-term risk-free rates has resulted in minimal spillover in the various credit markets that we participate in. Having said that, I think everybody feels like depending how much higher the risk-free rates go and then credit spreads on top of that, that is going to start to have an impact. Secondly, spreads have remained pretty steady. In fact, in some asset classes, it has declined, and that has muted the impact of rising short-term rates, and in certain credit strategies it actually modestly reduced it, where spreads have actually come down a bit. Third, however, what several of our portfolio managers are sharing with me is that they are seeing more nervousness in the market. For example, when certain credits, if you announce misses or problems in their business, investors are quicker to sell assets, the decline in marks are larger and more rapid. We're seeing, in effect, a volatility increase. No surprise, we can all follow the markets. But for the moment, as I mentioned in my prepared remarks, the increased volatility, increased rates has really not led to shaking loose a lot of new opportunities for us on the distressed side, but we are inching closer to that point in time, because rising rates, even without credit spreads tightening, are going to present challenges to the most highly levered companies, especially those with a meaningful exposure to floating rate debt.

Operator

And next we have a question from Alex Blostein of Goldman Sachs.

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

I was hoping to go back to some of the new initiatives, specifically kind of zoning in on the BDC strategy. So you guys closed the acquisition a little while ago. So maybe just kind of update us on where the assets stand there, how the portfolio has been repositioned and how you're planning to really grow the platform from here. And maybe just tack on comments around the change in leverage rules and whether or not you expect that to have any material impact.

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

Thanks. Alex. A few comments, and I just want to say, a little bit constrained here because these are 2 publicly traded vehicles. They will report their earnings in about 10 days. And there's several things that I'll leave for those -- the earnings calls. But bottom line is, the BDCs continue to progress as expected at the time we completed the acquisition of the management contracts. Meaning we continue to go to work repositioning and restructuring the portfolios more in our own image at Oaktree. That involves selling certain assets. Because of the strong markets, frankly, certain of the assets that we would have expected to be on the books longer have been called or paid down faster. That's given us more flexibility and opportunity. On the sourcing and deployment side, I'm pleased to report that we've already had several loans, including one large one, that we've been able to source and close that have been shared across, not only on the BDC platforms, but other strategies at Oaktree that invest in Direct Lending, which was one of our strategic goals, to become a more important and larger player up and down the capital structure in Direct Lending. And the largest loan was one -- was not from a PE sponsor, but it was actually sourced directly from the borrower, sourced by Oaktree. So I think that, so far, all the strategic aspects of the acquisition have played out as expected. Having said that, we told the market this would be a 2- to 3-year process, and that's still what we expect it to be. At some other point in the credit cycle, should there be issues with other BDCs or other opportunities to add to this BDC platform, as we said, we're better positioned now than when we didn't have the platform. We continue to grow other aspects of our direct lending capabilities. Middle-Market Direct Lending, as I mentioned, has started to deploy. We're also raising capital to Strategic Credit. And later in the year, we'll be focusing on another fundraise tied to Direct Lending, so we're feeling very, very good about it. But again we're remaking those portfolios in our own image. As far as the leverage rules, you're right, the law has changed. I think generally speaking, that's a good thing. It's not clear how our competitors or how we will capitalize on that, or if we will capitalize on that, it may be a different story depending on which BDC you're talking about and what the opportunity set is. Generally speaking, I would expect that change in the law that allows us to go to 2:1 leverage if we choose is something that will help us grow assets in the BDCs over time.

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

Got you. And then second question for Dan. I'm just thinking through the balance sheet strategy for you guys. You continue to have significant amount of cash and investments relative to your market cap, especially. Any updated thoughts on utilizing some of that excess liquidity, whether it's co-investing more into existing funds or pursuing more incremental acquisitions or the buyback? It just seems like the amount is still quite large obviously, and it has been for a while, I understand, but just curious, are there any kind of evolved thinking on that side?

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

Yes. I'm not sure our thinking has evolved, but I think we continue to value highly having a strong balance sheet and we want to have a strong balance sheet both in good markets and in periods of dislocation so that we can be opportunistic. If you think about that balance sheet, we use it really strategically to help grow our business. We see new strategies, as we saw last year, we do make acquisitions. We'll continue to do those things with our balance sheet. And as you know, we do distribute substantially all of our income each quarter to our unitholders. In terms of buybacks, we have the same policy we've had for a long period, which is we're going to do it opportunistically, and we do it in the context of how else can we invest our capital and what returns can we generate and in the context of the goal over time of growing our float.

Operator

And next we have a question from Ken Worthington of JPMorgan.

Kenneth Worthington - *JP Morgan Chase & Co, Research Division - MD*

Just to really follow-up on Alex's there. You mentioned that the BDCs are going according to plan. You mentioned to Alex's question being opportunistic. How is the environment for more strategic deals like the Fifth Street acquisition, where you're buying assets in addition to the investment professionals? Is it a good environment to be doing those transactions as you see what's in the marketplace? And then historically, you've grown through -- I would say, more a lift-out and almost organic expansion of extension of strategies. So if the distressed environment remains more challenging for longer, do you think there may be more opportunities to be a consolidator here?

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

Thanks, Ken. Well, just a couple of things that I'll put in perspective. A big trend at Oaktree over the past many years is diversification. We're not sitting here inactive. We continue to deploy in our distressed or stressed strategies but at a muted pace, and they will have their day in the sunshine possibly soon, to be determined. In the meantime, so much of our efforts in the last 5, 6 years have been growing more pro-cyclical strategies. I mean, if you just take a look between, again, growing the Real Estate platform, the Emerging Market Equity Debt platform, the Infra platform, Direct Lending platform, those strategies alone have grown assets since 2012. They've gone from about $10 billion to $35 billion, and I think they continue to have a meaningful runway, especially in an environment like this. The Fifth Street acquisition is not something that I would call a normal circumstance. It was an extraordinary event here. It came about due to unusual, somewhat unique circumstances. I would say in the current environment, you used the words is this a good environment, if you meant by that is there -- are there a large number of firms available at fair or value prices, the answer is clearly no, and that's why we've been so active on the other side, harvesting investments, taking advantage of the current environment. But there will be idiosyncratic situations that will come up from time to time, possibly even in the current environment, as Fifth Street did, and the question is, tied to the prior question from Alex, who's prepared to act? Who's got a strong balance sheet? Who's got liquidity? Who's got a platform? I think that while we always were well positioned at Oaktree to grow our Direct Lending platform, I think we are even better positioned now both to raise, to draw investment opportunities that are larger than we had in the past and allocate across investment vehicles. Now with the BDCs, it will be a bit simpler story to try to figure out how we might acquire another firm or firms in the future. But I don't see that in the near term, I don't think this is a ripe environment for that. Instead, I think there's pretty much of a pro-cyclical growth, pretty low-rate, pretty high asset value environment. That could continue for some time.

Kenneth Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay, great. You couldn't have been more clear.

Operator

And 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 first quarter 2018 conference call.

A replay of this conference call will be available for 30 days on Oaktree's website in the Unitholders section and by dialing (877) 344-7529 in the U.S. or 1 (412) 317-0088 outside of the U.S. The replay access code is 10118691. That replay will begin approximately one hour after the conclusion of the call.

Thanks so much. Talk to you next quarter.

Operator

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