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OAK - Q2 2015 Oaktree Capital Group LLC Earnings Call

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PRESENTATION

Operator

Welcome and thank you for joining the Oaktree Capital Group's second quarter 2015 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, Dexter. Welcome to everyone who has joined us for today's call to discuss Oaktree's second quarter 2015 financial results. The 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; Co-Chairman and Chief Investment Officer, Bruce Karsh; and Chief Financial Officer, David Kirchheimer. We will 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 the statements. Please refer to our SEC filings for a discussion of these factors. We undertake no duty to update or revise any forward-looking statements.

I would also like to remind you that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Oaktree fund. Investors and others should note that Oaktree uses the Unitholders section of its corporate website to announce material information. Accordingly, Oaktree encourages investors, the media and others to review the information that it shares on its corporate website at ir.oaktreecapital.com.

During our call today, we will be making reference to certain non-GAAP financial measures, which exclude our consolidated funds. For a reconciliation of each non-GAAP financial measure to its most directly comparable GAAP financial measure, please refer to our earnings press release, which was furnished to the SEC today on Form 8-K and may be accessed through the Unitholders section of our website at www.oaktreecapital.com.

Today, we announced a quarterly distribution of $0.50 per Class A unit payable on August 13 to holders of record as of the close of business on August 10. Finally, we plan to issue our second quarter Form 10-Q next week. With that, I will now turn the call over to Jay.

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

Thanks, Andrea and hello, everyone. The second quarter of 2015 witnessed a continuation of many of the same trends we saw in the first quarter -- namely strong fundraising, record AUM, flat management fee-generating AUM and divergent investment results. Funds raised in the quarter totaled $6.3 billion, helping to achieve our highest ever assets under management of $103 billion at June 30, up 13% over a year ago and up 35% over two years.

The largest pool of capital raised in the quarter was an additional $2.3 billion for Opportunities Funds X and Xb, bringing total commitments for those funds to $9.4 billion. And a first close of $1.3 billion for Real Estate Opportunities Fund VII.

Gross capital raised over the last 12 months of $24 billion set a new record for any such period demonstrating the trust and confidence that our clients continue to place in us and the strength of our firm-wide distribution activities.

Related to these record AUM and fundraising statistics are two key data points. The first is our $20.1 billion in uncalled capital commitments, nearly double the amount at year-end 2014 and a large percentage of total AUM by Oaktree historical standards at 20%. This positions Oaktree well given our sense that better opportunities lie ahead for capital deployment on the part of our core closed-end funds such as distressed debt. Bruce will discuss this in more depth, but our growing confidence, as well as our discipline in sizing funds commensurate with the market opportunity, is why our clients entrust us with their capital and the flexibility to deploy it at the right time.

The second key data point is that management fee-generating AUM was essentially flat over the last six months at $78.6 billion. The base of capital on which we charge management fees has yet to benefit from our record fundraising as we continue to employ a disciplined, client-first approach to deciding when to begin the investment period and collect fees on closed-end funds, which charge on committed capital, as well as when to draw down capital in funds that collect fees on drawn capital.

We make these decisions based on our sense of what is right in terms of the availability of investment opportunities, the pace of investment they will afford and the impact on the limited partners' results. Thus, even though our financials don't yet reflect our recent fundraising success, we are very well-positioned to grow management fee-generating AUM over time. It's not a matter of if, but when.

Investment performance in Q2 generally was impacted by weaker financial markets, but we also saw some of the same divergence of results as the last two quarters with some strategies doing extremely well and others not, and with European-based funds delivering some of the highest returns. The aggregate closed-end gross fund return was essentially zero in Q2 and 4% for the last 12 months. Excluding the results in distressed debt, which were negative, the aggregate closed-end gross fund returned was 1% for the quarter and 16% for the last 12 months.

Declines in a number of public holdings have continued to weigh on distressed debt returns, which at this point have a cyclically low amount of assets, or $14 billion, following $31 billion of realizations and distributions to our distressed debt clients since the global financial crisis.

In contrast, for the second quarter, our Real Estate Opportunities funds had a gross return of 3%, boosting their trailing 12-month gross return to 25%. Meanwhile, European Principal funds generated a 4% gross return in the second quarter, raising the past 12-month gross return to 31%, and the European Private Debt Fund had gross returns of 4% and 24% for the quarter and last 12 months respectively.

The success of Oaktree's effort in Europe, where we've been investing on behalf of our clients for over 16 years, is due to the outstanding team of almost 100 investment professionals and network of senior advisors we've built in London, Frankfurt, Paris, Milan, Madrid, Warsaw and elsewhere. Led by their efforts, Oaktree funds' holdings of European-sourced assets have grown to $16.7 billion and now account for over 20% of total holdings by Oaktree funds.

This month, we began fundraising for the European Capital Solutions Fund, a successor to the first European Private Debt Fund we raised just two years ago. The fund will primarily target proprietary direct loans to middle-market companies requiring a customized financing solution.

We continue to take advantage of opportunities arising from the prolonged dislocation in the European lending markets stemming from the global financial crisis and an evolving regulatory and legislative framework that has restricted bank lending to the middle market. And just this morning, we formally launched fundraising for European Principal Fund IV, which will target control investing opportunities where dislocation or distress creates attractive investment propositions.

These Europe-focused marketing efforts are in addition to the largest ever closed-end fundraising target of $20 billion that we articulated six months ago which included capital raises for distressed debt, real estate, power, infrastructure and senior loans. These fundraisers have followed some typical patterns with public pensions and corporate pensions, insurance companies and sovereign wealth funds as our largest investors. Many client commitments have been significant in size. Over the last six months, we've seen five closed-end fund commitments of over $0.5 billion.

Expanding our client base and cross-selling to our existing clients have been important goals of our distribution strategy. For example, for the first two closes of Opportunities Fund X, 28% of the LPs were new Oaktree clients and 14% were existing Oaktree clients, but entirely new to the strategy.

Generally, what I see at this point is a continued expansion of our LP base and larger commitments coming from traditional institutional clients, with some of those commitments for funds that are new for the LP.

Having said that, we continue to benefit from our particularly strong long-term relationships with many hundreds of institutions that dependably commit $5 million to $25 million to individual closed-end funds. In the last 18 months, we received over 200 such commitments. These institutions put a very welcome floor beneath our continuous fundraising efforts and on average represent one-third of the capital raised for Oaktree's closed-end funds.

During the first half of 2015, we came a long way toward our goal of replenishing our closed-end fund capital so as to be well-positioned for future investment opportunities. All the while our outstanding investment teams remain disciplined in deploying capital and our dedicated employees continue to serve our clients with the highest integrity and commitment to outstanding client service. With that, I'll hand it over to Bruce to cover the investment landscape.

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

Thank you, Jay and hello, everyone. In order to frame the investment opportunity going forward, I would like to share my impressions of the investment climate, as well as some of the highlights from recent portfolio activity. The second quarter was an uneven one for risk asset classes. US equities reached all-time highs in May before a sharp selloff at the end of June, while European equity markets sold off 4% or more.

The strong, sudden correction for Chinese equities, the Greek austerity bailout standoff in the Eurozone, and the deteriorating debt profile of the Puerto Rican commonwealth were merely the most prominent of many factors leading to heightened uncertainty and volatility. Since 2010, default rates have been near historic lows and the supply of corporate distressed debt opportunities has been muted. Nonetheless, we continue to find a few select areas with attractive investment opportunities.

As Jay mentioned, a key strategic advantage for Oaktree is our significant and long-standing presence in Europe, and the region remains high on our list of future opportunities given the magnitude of problem loans that European banks still need to sell. In fact, most of our recent distressed debt deployment has been concentrated in large pools of commercial and residential loans from European banks purchased at significant discounts to par.

The value we see in these assets has brought our newest Opportunities Fund, Opps Xa, to 7.5% drawn and over 15% committed, ahead of our prior expectations. As a reminder, our typical time horizon for investing an Opportunities Fund is 24 months or less. While it is still early days for Opps Fund Xa, we are off to a good start.

As I mentioned last quarter, additional areas of focus for our distressed debt funds are energy and other commodity-related sectors such as metals and mining. With the recent uptick in US high-yield bond defaults in these sectors and with their fortunes tied to weakening commodity prices, these areas will likely remain stressed.

Importantly, heightened regulatory pressures on leveraged loan issuance have eliminated a crucial liquidity avenue for overleveraged commodity producers. We expect dislocations in the energy and commodity markets to continue, providing further opportunities for attractive risk-adjusted returns in credit. We may invest in this area by making new secured or priority loans to financially distressed companies or by purchasing existing energy and commodity-related securities at deep discounts.

As we begin the second half, apart from the weakening commodity and energy sectors, the credit fundamentals of the high-yield bond market remain sound. Issuers of the bonds held in our funds in that strategy continue to post top-line growth and solid EBITDA gains. However, this relative tranquility belies the fact that there's still plenty to worry about. The US economic recovery remains tepid. Interest rates are poised to rise sometime in the coming year and the global economic environment is quite unsettled with the overhang of the Greek debt crisis and a slowing Chinese economy.

It's impossible to know whether the volatility suffered in the second quarter will continue to plague the market through the back half of this year, but if markets continue to weaken, you can be assured that we will be ready with an ability to deploy larger amounts of Opportunities Fund Xa, and perhaps Xb, as our clients would expect us to do.

While our distressed debt returns over the past 12 months have been below historical norms, we remain patient. Throughout our 27-year history, many of our most profitable Opportunities Fund investments, particularly those in cyclical industries like shipping, have shown mark-to-market losses early in their lives. Meanwhile, we are fortunate and gratified that our LPs have entrusted us with nearly $10 billion to date in Opps Xa and Xb. This positions us extremely well to take advantage of a growing opportunity set for distressed debt over the next few years. Our main goal is to be disciplined in deploying that capital in order to achieve attractive, risk-adjusted returns over the cycle.

I believe another reason for our clients' long-standing trust in Oaktree is our resourcefulness in identifying new opportunities for them to earn the investment returns they seek in a risk-controlled manner. European Capital Solutions is a prime example, but it's hardly the only one. Real Estate Opportunities, Real Estate Debt, European Principal, European High-Yield Bonds and Senior Loans and Power Opportunities are among the others. Each of them has represented a successful step-out over the years -- in certain cases four generations removed from the initial strategy that spawned it.

One of our newest step-outs is Infrastructure Fund I, thanks to last fall's addition of the talented Highstar Capital team. Just like so many step-out strategies before, we started infrastructure to capitalize on very attractive deal flow that is coming our way because of an existing strategy; in this case, Power Opportunities. I couldn't be more proud of what the European real estate, power and other investment teams have achieved, nor more excited about Oaktree's prospects for continuing to serve our investors through both existing and future strategies.

I look forward to answering your questions, but now I am delighted to turn the call over to David to discuss the financials.

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

Thanks, Bruce and hello, everybody. With almost nothing yet to show in management fees from the newest capital, the second quarter saw a slight drop in fee-related earnings. Together with significantly lower investment income amid the quarter's weaker financial markets, this drove a decline in adjusted net income to $0.44 per Class A unit from $0.75 in the year-ago quarter.

Incentive income rose by $3 million net of compensation to $32 million in this year's second quarter. Opps VIIb accounted for the bulk of the incentive income while a number of other closed-end funds in liquidation worked their way closer to paying incentives. In fact, 14 such funds and accounts in eight different strategies made distributions to their LPs during the second quarter. Even as we wait for incentives from these funds, we benefit, just like our fund investors, from these periodic realizations of investment income.

Coupled with the second quarter's routine receipt of an $8 million distribution related to our minority stake in DoubleLine Capital, distributions received from our funds pushed total investment income proceeds to $38 million, the 14th consecutive quarter of $25 million or greater cash flow from this quiet, but recurring source of distributable earnings. These investment income proceeds help to cushion the naturally cyclical nature of fee-related earnings.

Our record high assets under management position us for fee-related earnings growth ahead. Of the $103 billion as of June 30, $17.1 billion represented potential management fee-generating AUM that didn't generate management fees in the second quarter, a record amount of such so-called shadow AUM. Moreover, this $17 billion of AUM predominately represents closed-end funds, which generally have our highest management fee rates.

We don't expect management fees to increase, at least not appreciably, until the fourth quarter or possibly later as indicated by management fee-generating AUM, a forward-looking metric that rose just $100 million in the second quarter. Recognize that $6.6 billion of the shadow AUM represents our standby distressed debt fund Opps Xb, which we don't expect to generate management fees for some time. The remaining $10.5 billion is largely in closed-end funds for which management fees can start either once the fund begins investing or gradually if we elect to delay commencement of the fund's investment period.

In the case of Opps Xa, the initial capital drawdown of 7.5% was made July 15. For now, we have chosen to charge fees based on just the drawn capital; thus delaying the start of Opps Xa's three-year investment period, during which we will receive fees on the entire committed amount.

With respect to the third quarter currently underway, known fund-related net incentive and investment income proceeds total approximately $9 million, of which $3 million represents net incentive income. From where we sit today and with all the usual caveats about the unpredictability of incentive income, we expect total third-quarter net incentive income will be below the second quarter's roughly $30 million.

Looking further ahead, I'd like to say in closing that at times like these, our experience and our disciplined growth strategy are particularly valuable. Today, with the benefit of our recent growth in product offerings, distribution reach and global platform, Oaktree is especially well-positioned for the opportunities ahead. And with that, we are delighted to take your questions. So Dexter, please open up the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mike Cyprys, Morgan Stanley.

Mike Cyprys - *Morgan Stanely - Analyst*

So just first on the Opps X funds -- so far, it looks like you've raised about $9.4 billion or so at a fairly quick pace. Just what's the appetite for raising the target there above the $10 billion or so that you had spoken about?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

The decision to raise the amount above the $10 billion target will depend on the environment that we are in and that we foresee. And to the extent that we see further cracks in the general environment, either commodity markets, effect of China slowing, we may well decide to increase the amount that we will raise above $10 billion and perhaps well above $10 billion.

Mike Cyprys - *Morgan Stanely - Analyst*

And then at which point would you decide to turn the fees on for the Opps Xa fund? You've mentioned 7.5% drawn, 15% committed. What is sort of the threshold that you are waiting for in order to turn the fees on, and could that happen next quarter?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

That will be a balancing act based on the pace of investment, the expected pace of investment. So far, so good. But we will find out in the next quarter or two or three if we continue at this pace and that's inherently unknowable. So it's hard for me to answer that question specifically except to say that we are off to a good start.

Mike Cyprys - *Morgan Stanely - Analyst*

Okay, great. And if I could sneak one more in there, just in terms of the realizations, mostly in the Opps VIIb fund this quarter it looks like, but what other funds can we expect to see realizations from over the next couple of quarters and which funds do you think will potentially cross the hurdle next? It looks like the Opps VIIIa fund, Real Estate V, European Principal II, are all moving at a fairly fast pace towards returning capital and on the pref. Is there any sense on the timeframe there and is six to eight quarters reasonable?

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

Mike, I would say, as you've identified, almost 40% of the $1 billion of net incentives are in funds currently paying incentives. Most of that is in Opps VIIb, but as you can see Opps VI, European Principal Fund, Opps V, among the other funds, and then we do have a couple of funds that are making very good headway with just the preferred return remaining to return. So that would be Real Estate Fund IV, Principal Fund IV and then a number of others behind that as well, so that of the $1 billion of net, about 80% of it is in closed-end funds that are in liquidation, almost half of which are currently paying incentives. The other half is working their way towards that point and it's unpredictable, as always, as to the pace.

I made my comments as to what we can see for this quarter, which is about the most visibility we have now. There are always a number of deals that are at various stages of realization or monetization, but it's uncertain as to which of those close and the timing of it. But we will see over the next, I guess, two, four, six months as to which of those actually get realized and therefore the pace of realization of that net accrued incentives.

Mike Cyprys - *Morgan Stanely - Analyst*

Got it. Thanks.

Operator

Michael Needham, Bank of America Merrill Lynch.

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

This is Mike Needham in for Mike Carrier. You guys commented on drawdowns in Opps Xa. I noted some opportunities in European loans. As you continue to raise money in your closed-end strategies, can you give us a sense of what the deployment opportunities are within some of the other strategies such as infrastructure and power?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

Well, in the case of infrastructure and power, those are highly specialized areas. Power, in particular, we've been doing that for many, many years and they are a select target of opportunities and a lot of it depends on the -- not so much the general macro environment, but more specific to finding companies that meet their criteria that are reasonably priced, reasonably valued.

In the case of infrastructure, we think that it's an area that makes quite a bit of sense in terms of the dependability of the cash flows, the solid nature of the assets and where we are in the cycle.

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

Bruce, I might add that one of the reasons that the infrastructure step-out was pursued is because we also think there are likely to be opportunities for those two strategies to work together in terms of identifying deal flow that may be appropriate for one or the other funds. And already there are some early successes in doing that for those teams working together, both power, identifying opportunities for infrastructure and vice versa. We will see how that plays out over the life of those two closed-end funds.

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

Okay, thanks. And then just as a follow-up, if you hit your $20 billion target for closed-end fundraising, can you speak to what that might mean in terms of the upside for margins? Thanks.

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

Sure, well, certainly it would be expected to increase fee-related earning margins as that capital starts generating management fees, and I don't make predictions as to the amount of increase in either the percent or the dollar amount, but the blended fee rate from that shadow AUM is almost 1.4%. So when you compare that to the current average of about 93 basis points from our current fee-generating AUM, you can see the significant margin improvement that is complicit as those amounts come online.

Keep in mind, of course, that closed-end funds are revolving, so funds in liquidation will serve to be a headwind on growth in fee-generating AUM. It's not just a one-way street, but the point is that, yes, margins are expected to improve. I would say we are probably nearing a cyclical low in fee-related earnings, both dollar-wise and margin-wise, and looking towards 2016, 2017, presumably these funds come online and start generating fees based on full committed capital. Eventually Xb will do so and so the increase in margin could be meaningful.

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

Thanks.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

As you are coming to market with all of these next vintage funds, just wondering what you are seeing in terms of the underlying mix of LPs as it relates to the type of investors. I know you commented a little bit about the pension plans, sovereign wealth funds, high net worth clients, but just also kind of looking at the client domicile. And then I know you also mentioned the stat around existing clients within Oaktree products, but maybe how that's compared and how that's grown relative to some historic fundraises.

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

Sure. Thanks for that question. In terms of the client mix, as I mentioned in my comments, we are seeing primarily our traditional mix of clients, the corporate and public pensions, large endowments and sovereign wealth funds. And I would say that the pattern there remains consistent with the past.

In terms of domicile, which we've talked about before, there's been a very slight uptick. I think we now have approximately 28% of our LPs and LP assets are represented by LPs based outside of the United States. I think it was maybe 27% last quarter. And then, I'm sorry, the last part of your question was again, please?

Michael Kim - *Sandler O'Neill - Analyst*

Related to the extent of which cross-selling is picking up, I think the comment was, with Opps X, I think there was 28% that was new to Oaktree clients?

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

So I guess a couple of stats there that might be helpful. And again, I think consistent with the past, maybe moderately more, as we sit here today, about 37% of the AUM in our funds are represented by clients who are invested in four or more Oaktree strategies. That's up slightly from when I think we first talked about this one or two quarters ago, and a full 77% of the AUM in our funds are from clients who are invested in at least two or more strategies.

So it is one of the goals of our distribution organization and there's been some progress in that regard. So both on the geographic front and here, some slight, but progress since we last talked about it.

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

And Michael, just to share an anecdote, I was just talking to one of our PMs in Real Estate Debt Fund this morning who had just come out of a update meeting with a state pension plan client and he was being followed into the room by one of our PMs in the Senior Loan strategy to talk to that same client about possibly coming into that one. So just a great daily reminder of the synergy across these strategies.

Remember, it's not a coincidence. Because of the unifying investment philosophy followed across Oaktree, if a client likes one strategy, they are quite confident that they're going to like another one as well, so thanks for the question.

Michael Kim - *Sandler O'Neill - Analyst*

Good. Thank you. Appreciate the color. Then maybe just one more. I know this is a smaller part of your business, but now that you've raised Principal Fund VI, has the private equity deal flow opportunity set narrowed a bit as a result of more restrictive lending requirements on the banks? Maybe you spoke about that a little bit before, but then any sense of the potential implications for the types of deals and the types of returns that you're assuming kind of lower leveraged transactions going forward?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

Sure, well, our principal fund, as you know, is a distressed for control vehicle, so we are focused on pockets of opportunity that are out of favor -- looking for, in some cases, structured transactions to take advantage of opportunities. In many cases, because of the absence of regular lending by banks to those situations, and Fund VI is off to a good start. We have made a few investments already and so far, so good.

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

If I might add, Principal Fund VI is technically not yet closed and there will be one more slight add to the capital commitments there, so we are still in the market for that for a little while longer.

Michael Kim - *Sandler O'Neill - Analyst*

Great. Thanks for clarifying and thanks for taking our questions.

Operator

Ken Worthington, JPMorgan Chase.

Ken Worthington - *JPMorgan Chase - Analyst*

Maybe first for Jay, in terms of the management of Oaktree, can you talk about the management themes that you are focused on and any enhancements you've made to process and procedure thus far? And then maybe talk about what you're thinking about for your next steps.

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

Sure. Well, I guess at the top of the list for management, you mentioned what I'm focused on, and I'm focused on staying focused on our immediate, most important opportunities. So there's a lot of things going on at Oaktree, but currently the most important is to stay focused on completing this cycle of approximately $20 billion of closed-end fundraising. And there's tremendous activity here in and around that. As you know, we've got fundraising going on currently, Infrastructure Fund I, Enhanced Income Fund III, Real Estate Opportunities Fund VII, the European Capital Solutions Fund and European Principal Fund IV I mentioned earlier. We are still in the market with our Opportunities Fund Xa and Xb. That's not finished. I mentioned we are still in the market with Principal Fund VI for a little while longer, and we are even still in the market for a little while longer for Mezzanine Fund IV.

So those closed-end fundraises are as important as anything, along with some of the ongoing efforts with open-end and evergreen fundraising. We are not going to get off-message on that, if you will. By the same token, we've continued to focus, and we talked about it earlier on the call, about the nature of our distribution, both geographic basis and continuing to focus on the high net worth, mutual fund and sub-advisory markets. And we're making a little bit of progress there also with several fundraises that have been either previously or currently in the high net worth space.

Having said all of that, in terms of process and procedures, there's a lot going on here also and I think the organization has embraced it and is handling it very, very well. I think it starts really with greater transparency and that shows itself in several ways. We have four firm-wide governance bodies now that are somewhat new to Oaktree. Oaktree always had members from across the firm involved in decision-making, but I would say that it was a more informal process, especially with people who had worked together for a long time. I think we've now got it more systematic in terms of making sure we have representation from across all of the investment strategies and all the noninvestment groups, and a greater transparency includes sharing profitability information by investment strategy, sharing budgetary or expense information across all the groups, especially in noninvestment groups, and that's resulting in a lot more conversation across the firm and I think an awful lot of good ideas on how we can improve in those areas.

In particular, we've got a broader group of people focused on the products and that's important because, as the product set has expanded, become more complicated, become more bespoke to individual clients, it's not all comingled funds anymore. There's separate accounts, funds of one, retail vehicles like our mutual funds and our SICAVs, and as some of our clients become much larger in their commitments to Oaktree, there's more requests or ideas around bespoke fund fee and term strategies. And so we want a broader group of Oaktree participants focusing on how to shape those changes to make sure that whatever we are doing in one fund category or one investment strategy doesn't have unintended consequences for another.

And we are using the same across-Oaktree group to focus on how we are spending our funds, especially with some of the larger project spends, especially in IT, but also how we are investing our balance sheet. We have a very large portfolio with investments in our own Oaktree strategies as well as some other strategies, and I can't think of a better group of investment professionals that I would want looking at our Oaktree balance sheet portfolio of investments than our own investment professionals.

So those are some of the activities that I and really our whole team has been focused on. Hopefully, that is responsive to your question, Ken.

Ken Worthington - *JPMorgan Chase - Analyst*

Nope, that's great. Thank you very much.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo Securities - Analyst*

So first question relates to the opportunity in energy you guys talked about there. Really just wanting the team to talk about how you guys sort of manage the risk investing in that sector and kind of what I am wondering about is if you underwrite investment assuming kind of $50 oil as a baseline, yet $25 ends up being the reality, it seems like there could be a lot of downside associated with those investments. So that is part one of the question. Part two is do you think it's a little early yet to be an aggressive investor in the sector at this point?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

The hallmark of Oaktree investing is to focus on the downside and when we look at energy, we try to do the same. We try to assume -- we look obviously at the forward curve and what that's telling us, but then we assume a lot of downside to that and try to build that into the equation.

So the most recent transaction that we are working on right now, for example, our breakeven would be well below the forward curve and probably something in the $30s. Now if oil gets down to $25, that's going to hurt a lot of people and of course, no one knows what's going to happen, but the interesting thing about Oaktree, and I could've said this to Mike in answer to the very first question is, as things get worse and worse, the opportunity set for us opens up more and more. So for example we would raise more money in Opps Xb to take advantage of the opportunity set a year or two from now. But in terms of today, we can't proceed assuming that oil is going to be $25. All we can do is structure our investments such that we protect ourselves in a downside scenario, which we do do.

Chris Harris - *Wells Fargo Securities - Analyst*

And the second part of that question -- is it a little early yet to be really aggressive investing in the sector, or do you think now there has been enough shakeout where there's some really attractive opportunities at this point?

Bruce Karsh - *Oaktree Capital Group, LLC - Co-Chairman & CIO*

Well, in the last quarterly call, I mentioned the psychology that there wasn't outsized opportunities because the psychology was not really that negative. The psychology is starting to turn negative, but it's just beginning and we haven't dived in yet by any means. We have a lot of dry powder and we are right now accessing opportunities that again are structured to basically minimize the risk, but also want to take advantage of what now happens to be in retrospect the right time to step in for part of the opportunity. So our instinct is that it's not time to dive into the water completely, but it is time to take advantage of low oil prices and gas prices.

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

And Chris, to just further illustrate our investment team's focus on downside risk in this area, in US high-yield bonds, in our oldest strategy, I think in the second quarter the statistic is something like there were nine defaults in the high-yield universe, of which seven were in metals, mining or energy. Our team had no defaults in the quarter. So we've always been quite attuned to the downside risk in this and other sectors.

Chris Harris - *Wells Fargo Securities - Analyst*

Okay. Yes, makes perfect sense. And a quick follow-up, David, on the P&L. This is the second consecutive quarter where G&A came in a little bit lower than what we had anticipated. Are you guys expecting maybe a pickup in the second half? I know there's some noise around FX, but any guidance you could share there would be great.

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

You bet, yes. Definitely noise, as we always disclose quite prominently. So there's again an FX gain, which, by the way, was significantly related to our hedging activities because management fees were a little bit lower and the hedging for that appears to gain in G&A. But, yes, you should exclude that in looking at G&A going forward. And in fact, we may well have a pickup in G&A in the second half, possibly as early as the third quarter because part of our marketing initiative has become more focused on the wirehouses and thus placement fees, which historically have been either zero or a relatively immaterial part of our G&A, could well take a jump up as early as the third quarter, maybe not until the fourth quarter.

So yes, I would definitely caution you to not expect this low a G&A amount going forward. It should be over $30 million, I would expect, starting in the third quarter ex the FX effect, which is always unknowable.

Chris Harris - *Wells Fargo Securities - Analyst*

Thank you.

Operator

Thank you very much. (Operator Instructions).

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

Thank you, operator. It looks like we have no further questions. Thanks, everyone, for joining us for our second quarter 2015 earnings conference call. A replay of this conference call will be available for 30 days on Oaktree's website in the Unitholders section, or by dialing 800-873-2041 in the US; 1-203-369-4005 outside of the US. That replay will begin approximately one hour after this broadcast. Talk to you next quarter. Thank you.

Operator

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