

Oaktree Capital Group, LLC
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
^x OF 1934.

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
^o OF 1934.

For the transition period from _____ to _____
Commission File Number 001-35500

Oaktree Capital Group, LLC
(Exact name of registrant as specified in its charter)

Delaware 26-0174894
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)
333 South Grand Avenue, 28th Floor
Los Angeles, CA 90071
Telephone: (213) 830-6300
(Address, zip code, and telephone number, including
area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller
reporting company) Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 29, 2018, there were 71,510,743 Class A units and 85,625,657 Class B units of the registrant outstanding.

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Financial Condition</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes in Unitholders' Capital for the Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>47</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>92</u>
<u>Item 4. Controls and Procedures</u>	<u>94</u>
PART II – OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>95</u>
<u>Item 1A. Risk Factors</u>	<u>95</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>95</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>95</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>95</u>
<u>Item 5. Other Information</u>	<u>95</u>
<u>Item 6. Exhibits</u>	<u>101</u>
<u>Signature</u>	

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), which reflect our current views with respect to, among other things, our future results of operations and financial performance. In some cases, you can identify forward-looking statements by words such as “anticipate,” “approximately,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “potential,” “seek,” “should,” “will” and “would” or the negative version of these words or other comparable or similar words. These statements identify prospective information. Important factors could cause actual results to differ, possibly materially, from those indicated in these statements. Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Such forward-looking statements are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity, including, but not limited to, changes in our anticipated revenue and income, which are inherently volatile; changes in the value of our investments; the pace of our raising of new funds; changes in assets under management; the timing and receipt of, and impact of taxes on, carried interest; distributions from and liquidation of our existing funds; the amount and timing of distributions on our preferred units and our Class A units; changes in our operating or other expenses; the degree to which we encounter competition; and general political, economic and market conditions. The factors listed in the item captioned “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 (“annual report”) filed with the U.S. Securities and Exchange Commission (“SEC”) on February 23, 2018, which is accessible on the SEC’s website at www.sec.gov, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in our forward-looking statements.

Forward-looking statements speak only as of the date of this quarterly report. Except as required by law, we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

In this quarterly report, unless the context otherwise requires:

“Oaktree,” “OCG,” “we,” “us,” “our” or “our company” refers to Oaktree Capital Group, LLC and, where applicable, its subsidiaries and affiliates.

“Oaktree Operating Group,” or “Operating Group,” refers collectively to the entities in which we have a minority economic interest and indirect control that either (i) act as or control the general partners and investment advisers of our funds or (ii) hold interests in other entities or investments generating income for us.

“OCGH” refers to Oaktree Capital Group Holdings, L.P., a Delaware limited partnership, which holds an interest in the Oaktree Operating Group and all of our Class B units.

“OCGH unitholders” refers collectively to our senior executives, current and former employees and certain other investors who hold interests in the Oaktree Operating Group through OCGH.

“assets under management,” or “AUM,” generally refers to the assets we manage and equals the NAV (as defined below) of the assets we manage, the leverage on which management fees are charged, the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments, and our pro-rata portion of AUM managed by DoubleLine (as defined below) in which we hold a minority ownership interest. For our collateralized loan obligation vehicles (“CLOs”), AUM represents the aggregate par value of collateral assets and principal cash, for our publicly-traded BDCs, gross assets (including assets acquired with leverage), net of cash, and for DoubleLine funds, NAV. Our AUM amounts include AUM for which we charge no management fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics described below may not be directly comparable to the AUM metrics of other investment managers.

“management fee-generating assets under management,” or “management fee-generating AUM,” is a forward-looking metric and generally reflects the beginning AUM on which we will earn management fees in the following quarter, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Measures—Assets Under Management—Management Fee-generating Assets Under Management.” “incentive-creating assets under management,” or “incentive-creating AUM,” refers to the AUM that may eventually produce incentive income, as more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Measures—Assets Under Management—Incentive-creating Assets Under Management.”

“Class A units” refer to the common units of OCG designated as Class A units.

“common units” or “common unitholders” refer to the Class A common units of OCG or Class A common unitholders, respectively, unless otherwise specified.

“consolidated funds” refers to the funds and CLOs that Oaktree is required to consolidate as of the applicable reporting date.

“DoubleLine” refers to DoubleLine Capital LP and its affiliates.

“funds” refers to investment funds and, where applicable, CLOs and separate accounts that are managed by us or our subsidiaries.

“initial public offering” refers to the listing of our Class A units on the New York Stock Exchange on April 12, 2012 whereby Oaktree sold 7,888,864 Class A units and selling unitholders sold 954,159 Class A units.

“Intermediate Holding Companies” collectively refers to the subsidiaries wholly owned by us.

“net asset value,” or “NAV,” refers to the value of all the assets of a fund (including cash and accrued interest and dividends) less all liabilities of the fund (including accrued expenses and any reserves established by us, in our discretion, for contingent liabilities) without reduction for accrued incentives (fund level) because they are reflected in the partners’ capital of the fund.

“preferred units” or “preferred unitholders” refer to the Series A and Series B preferred units of OCG or Series A and Series B preferred unitholders, respectively, unless otherwise specified.

“Relevant Benchmark” refers, with respect to:

- our U.S. High Yield Bond product, to the FTSE US High-Yield Cash-Pay Capped Index;
- our Global High Yield Bond product, to an Oaktree custom global high yield index that represents 60% ICE BofAML High Yield Master II Constrained Index and 40% ICE BofAML Global Non-Financial High Yield European Issuers 3% Constrained, ex-Russia Index – USD Hedged from inception through December 31, 2012, and the ICE BofAML Non-Financial Developed Markets High Yield Constrained Index – USD Hedged thereafter;
- our European High Yield Bond product, to the ICE BofAML Global Non-Financial High Yield European Issuers excluding Russia 3% Constrained Index (USD Hedged);
- our U.S. Senior Loan product (with the exception of the closed-end funds), to the Credit Suisse Leveraged Loan Index;
- our European Senior Loan product, to the Credit Suisse Western European Leveraged Loan Index (EUR Hedged);
- our U.S. Convertible Securities product, to an Oaktree custom convertible index that represents the Credit Suisse Convertible Securities Index from inception through December 31, 1999, the Goldman Sachs/Bloomberg Convertible 100 Index from January 1, 2000 through June 30, 2004, and the ICE BofAML All U.S. Convertibles Index thereafter;
- our non-U.S. Convertible Securities strategy, to an Oaktree custom non-U.S. convertible index that represents the JACI Global ex-U.S. (Local) Index from inception through December 31, 2014 and the Thomson Reuters Global Focus ex-U.S. (USD hedged) Index thereafter;
- our High Income Convertible Securities strategy, to the FTSE US High-Yield Market Index; and
- our Emerging Markets Equities strategy, to the Morgan Stanley Capital International Emerging Markets Index (Net).

“senior executives” refers collectively to Howard S. Marks, Bruce A. Karsh, Jay S. Wintrob, John B. Frank and Sheldon M. Stone.

“Sharpe Ratio” refers to a metric used to calculate risk-adjusted return. The Sharpe Ratio is the ratio of excess return to volatility, with excess return defined as the return above that of a riskless asset (based on the three-month U.S. Treasury bill, or for our European Senior Loan strategy, the Euro Overnight Index Average) divided by the standard deviation of such return. A higher Sharpe Ratio indicates a return that is higher than would be expected for the level of risk compared to the risk-free rate.

This quarterly report and its contents do not constitute and should not be construed as an offer of securities of any Oaktree funds.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Oaktree Capital Group, LLC

Condensed Consolidated Statements of Financial Condition (Unaudited)

(\$ in thousands)

	As of September 30, 2018	December 31, 2017
Assets		
Cash and cash-equivalents	\$543,229	\$481,631
U.S. Treasury and other securities	469,800	176,602
Corporate investments (includes \$70,719 and \$50,778 measured at fair value as of September 30, 2018 and December 31, 2017, respectively)	1,055,351	1,009,631
Due from affiliates	149,899	223,224
Deferred tax assets	243,059	202,460
Other assets	543,031	564,529
Assets of consolidated funds:		
Cash and cash-equivalents	312,832	477,834
Investments, at fair value	6,000,681	5,660,540
Dividends and interest receivable	22,834	21,144
Due from brokers	17,278	54,289
Receivable for securities sold	69,427	141,582
Derivative assets, at fair value	1,700	731
Other assets	928	599
Total assets	\$9,430,049	\$9,014,796
Liabilities and Unitholders' Capital		
Liabilities:		
Accrued compensation expense	\$228,639	\$274,984
Accounts payable, accrued expenses and other liabilities	143,102	158,716
Due to affiliates	192,267	177,873
Debt obligations	745,812	746,274
Liabilities of consolidated funds:		
Accounts payable, accrued expenses and other liabilities	27,133	18,111
Payables for securities purchased	359,169	580,906
Securities sold short, at fair value	19,463	86,467
Derivative liabilities, at fair value	590	953
Distributions payable	82,550	7,354
Borrowings under credit facilities	863,997	862,401
Debt obligations of CLOs	3,648,217	3,219,592
Total liabilities	6,310,939	6,133,631
Commitments and contingencies (Note 17)		
Non-controlling redeemable interests in consolidated funds	696,307	860,548
Unitholders' capital:		
Series A preferred units, 7,200,000 units issued and outstanding as of September 30, 2018	173,669	—
Series B preferred units, 9,400,000 units issued and outstanding as of September 30, 2018	226,915	—
Class A units, no par value, unlimited units authorized, 71,510,743 and 65,310,226 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Class B units, no par value, unlimited units authorized, 85,625,657 and 90,975,687 units issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Paid-in capital	881,982	788,413
Retained earnings	76,203	80,128
Accumulated other comprehensive income	764	443
Unitholders' capital attributable to Oaktree Capital Group, LLC	1,359,533	868,984
Non-controlling interests in consolidated subsidiaries	1,056,314	1,121,237
Non-controlling interests in consolidated funds	6,956	30,396
Total unitholders' capital	2,422,803	2,020,617
Total liabilities and unitholders' capital	\$9,430,049	\$9,014,796

Please see accompanying notes to condensed consolidated financial statements.

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Oaktree Capital Group, LLC
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Management fees	\$175,195	\$181,312	\$538,706	\$542,268
Incentive income	66,032	53,720	253,125	616,404
Total revenues	241,227	235,032	791,831	1,158,672
Expenses:				
Compensation and benefits	(101,787)	(98,224)	(315,614)	(304,713)
Equity-based compensation	(14,747)	(15,828)	(44,614)	(45,529)
Incentive income compensation	(27,294)	(26,362)	(127,327)	(327,526)
Total compensation and benefits expense	(143,828)	(140,414)	(487,555)	(677,768)
General and administrative	(38,051)	(24,096)	(110,459)	(90,703)
Depreciation and amortization	(6,459)	(3,037)	(19,412)	(9,865)
Consolidated fund expenses	(2,829)	(2,226)	(9,383)	(7,425)
Total expenses	(191,167)	(169,773)	(626,809)	(785,761)
Other income (loss):				
Interest expense	(39,456)	(35,776)	(115,504)	(128,797)
Interest and dividend income	74,490	55,218	205,089	155,092
Net realized gain (loss) on consolidated funds' investments	(9,812)	3,392	(12,509)	1,755
Net change in unrealized appreciation (depreciation) on consolidated funds' investments	10,552	3,662	(34,939)	56,793
Investment income	58,196	51,061	149,682	150,618
Other income, net	5,629	5,418	7,240	14,979
Total other income	99,599	82,975	199,059	250,440
Income before income taxes	149,659	148,234	364,081	623,351
Income taxes	(6,568)	(13,857)	(17,832)	(31,700)
Net income	143,091	134,377	346,249	591,651
Less:				
Net income attributable to non-controlling interests in consolidated funds	(14,427)	(9,990)	(17,792)	(23,543)
Net income attributable to non-controlling interests in consolidated subsidiaries	(72,005)	(78,546)	(187,945)	(350,028)
Net income attributable to Oaktree Capital Group, LLC	56,659	45,841	140,512	218,080
Net income attributable to preferred unitholders	(3,909)	—	(3,909)	—
Net income attributable to Oaktree Capital Group, LLC Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080
Distributions declared per Class A unit	\$0.55	\$1.31	\$2.27	\$2.65
Net income per Class A unit (basic and diluted):				
Net income per Class A unit	\$0.74	\$0.71	\$1.95	\$3.41
Weighted average number of Class A units outstanding	71,369	64,394	70,167	63,875

Please see accompanying notes to condensed consolidated financial statements.

2

Oaktree Capital Group, LLC

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 143,091	\$ 134,377	\$ 346,249	\$ 591,651
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	773	(1,693)	683	(7,347)
Unrealized gain on interest rate swap designated as cash flow hedge	—	—	—	60
Other comprehensive income (loss), net of tax	773	(1,693)	683	(7,287)
Total comprehensive income	143,864	132,684	346,932	584,364
Less:				
Comprehensive income attributable to non-controlling interests in consolidated funds	(14,427)	(9,990)	(17,792)	(23,543)
Comprehensive income attributable to non-controlling interests in consolidated subsidiaries	(72,434)	(77,561)	(188,307)	(345,718)
Comprehensive income attributable to OCG	57,003	45,133	140,833	215,103
Comprehensive income attributable to preferred unitholders	(3,909)	—	(3,909)	—
Comprehensive income attributable to OCG Class A unitholders	\$ 53,094	\$ 45,133	\$ 136,924	\$ 215,103

Please see accompanying notes to condensed consolidated financial statements.

3

Oaktree Capital Group, LLC
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 346,249	\$ 591,651
Adjustments to reconcile net income to net cash used in operating activities:		
Adoption of revenue recognition standard	48,709	—
Investment income	(149,682)	(150,618)
Depreciation and amortization	19,412	9,865
Equity-based compensation	44,614	45,529
Net realized and unrealized (gain) loss from consolidated funds' investments	47,448	(58,548)
Amortization (accretion) of original issue and market discount of consolidated funds' investments, net	(3,488)	(2,926)
Income distributions from corporate investments in funds and companies	177,864	132,385
Other non-cash items	1,468	779
Cash flows due to changes in operating assets and liabilities:		
Decrease in other assets	28,353	6,161
Increase in net due to affiliates	53,430	56,956
Decrease in accrued compensation expense	(47,365)	(79,447)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(14,873)	18,694
Cash flows due to changes in operating assets and liabilities of consolidated funds:		
Increase in dividends and interest receivable	(2,030)	(386)
Decrease in due from brokers	37,010	45,234
(Increase) decrease in receivables for securities sold	72,118	(142,086)
(Increase) decrease in other assets	(724)	91
Increase in accounts payable, accrued expenses and other liabilities	9,619	3,442
Increase (decrease) in payables for securities purchased	(212,499)	347,416
Purchases of securities	(3,443,337)	(3,847,188)
Proceeds from maturities and sales of securities	2,849,135	2,784,686
Net cash used in operating activities	(138,569)	(238,310)
Cash flows from investing activities:		
Purchases of U.S. Treasury and other securities	(791,401)	(422,820)
Proceeds from maturities and sales of U.S. Treasury and other securities	498,104	855,993
Corporate investments in funds and companies	(212,427)	(75,316)
Distributions and proceeds from corporate investments in funds and companies	245,801	163,951
Purchases of fixed assets	(3,527)	(27,036)
Proceeds from sale of fixed assets	—	5,048
Net cash provided by (used in) investing activities	(263,450)	499,820

(continued)

Please see accompanying notes to condensed consolidated financial statements.

4

Oaktree Capital Group, LLC

Condensed Consolidated Statements of Cash Flows (Unaudited) — (Continued)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Net proceeds from issuance of Class A units	\$219,750	\$—
Purchase of OCGH units	(219,525)	—
Repurchase and cancellation of units	(12,195)	(11,470)
Distributions to Class A unitholders	(160,883)	(170,034)
Distributions to preferred unitholders	(3,909)	—
Distributions to OCGH unitholders	(218,575)	(296,240)
Distributions to non-controlling interests	(3,700)	(3,617)
Net proceeds from issuance of preferred units	400,584	—
Payment of debt issuance costs	(2,235)	—
Cash flows from financing activities of consolidated funds:		
Contributions from non-controlling interests	107,962	210,964
Distributions to non-controlling interests	(236,929)	(41,197)
Proceeds from debt obligations issued by CLOs	1,170,317	1,218,737
Payment of debt issuance costs	(1,771)	(7,782)
Repayment on debt obligations issued by CLOs	(729,458)	(1,244,698)
Borrowings on credit facilities	—	702,100
Repayments on credit facilities	—	(367,444)
Net cash provided by (used in) financing activities	309,433	(10,681)
Effect of exchange rate changes on cash	1,497	26,021
Net increase (decrease) in cash and cash-equivalents	(91,089)	276,850
Deconsolidation of funds	(12,315)	—
Cash and cash-equivalents, beginning balance	959,465	959,200
Cash and cash-equivalents, ending balance	\$856,061	\$1,236,050
Reconciliation of cash and cash-equivalents		
Cash and cash-equivalents – Oaktree	\$543,229	\$705,121
Cash and cash-equivalents – Consolidated Funds	312,832	530,929
Total cash and cash-equivalents	\$856,061	\$1,236,050

Please see accompanying notes to condensed consolidated financial statements.

5

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Oaktree Capital Group, LLC

Condensed Consolidated Statements of Changes in Unitholders' Capital (Unaudited)

(in thousands)

Oaktree Capital Group, LLC							Accumulated	Non-controlling	Non-controlling	Total
	Class A	Class B	Series A	Series B	Paid-in	Retained	Other	Interests in	Interests in	Unitholder
	Units	Units	Preferred	Preferred	Capital	Earnings	Comprehensive	Consolidated	Consolidated	Capital
			Units	Units			Income	Subsidiaries	Funds	
							(Loss)			
Unitholders' capital as of December 31, 2017	65,310	90,976	\$—	\$—	\$788,413	\$80,128	\$443	\$1,121,237	\$30,396	\$2,020,617
Activity for the nine months ended September 30, 2018:										
Cumulative-effect adjustment from adoption of accounting guidance	—	—	—	—	—	20,355	—	28,354	—	48,709
Issuance of units	6,534	182	173,669	226,915	219,750	—	—	—	—	620,334
Cancellation of units associated with forfeitures	(112)	—	—	—	—	—	—	—	—	—
Cancellation of units	—	(428)	—	—	—	—	—	—	—	—
Repurchase and cancellation of units	(221)	(5,104)	—	—	(228,469)	—	—	(3,251)	—	(231,720)
Purchase of non-controlling interests in subsidiary	—	—	—	—	(1,320)	—	—	(1,596)	—	(2,916)
Deferred tax effect resulting from the purchase of OCGH units	—	—	—	—	6,051	—	—	—	—	6,051
Equity reallocation between controlling and non-controlling interests	—	—	—	—	78,269	—	—	(78,269)	—	—
Capital increase related to equity-based	—	—	—	—	19,288	—	—	23,807	—	43,095

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

compensation											
Distributions declared	—	—	(3,909)	—	—	(160,883)	—	(222,275)	(22,833)	(409,900)	
Net income	—	—	3,909	—	—	136,603	—	187,945	(607)	327,850	
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	321	362	—	683	
Unitholders' capital as of September 30, 2018	71,511	85,626	\$173,669	\$226,915	\$881,982	\$76,203	\$764	\$1,056,314	\$6,956	\$2,422,803	
Unitholders' capital as of December 31, 2016	63,032	91,758	\$—	\$—	\$749,618	\$54,494	\$1,793	\$1,050,319	\$28,947	\$1,885,171	
Activity for the nine months ended September 30, 2017:											
Cumulative-effect adjustment from adoption of accounting guidance	—	—	—	—	(352)	352	—	—	—	—	
Issuance of units	1,800	524	—	—	—	—	—	—	—	—	
Cancellation of units associated with forfeitures	(21)	—	—	—	—	—	—	—	—	—	
Cancellation of units	—	(515)	—	—	—	—	—	—	—	—	
Repurchase and cancellation of units	(206)	(85)	—	—	(8,454)	—	—	(3,016)	—	(11,470)	
Equity reallocation between controlling and non-controlling interests	—	—	—	—	14,581	—	—	(14,581)	—	—	
Capital increase related to equity-based compensation	—	—	—	—	18,343	—	—	26,338	—	44,681	
Distributions declared	—	—	—	—	—	(170,034)	—	(299,857)	(1,791)	(471,682)	
Net income	—	—	—	—	—	218,080	—	350,028	1,748	569,856	
Foreign currency translation adjustment, net of	—	—	—	—	—	—	(3,001)	(4,346)	—	(7,347)	

tax											
Unrealized gain											
on interest-rate											
swap designated	—	—	—	—	—	—	24	36	—	60	
as cash-flow											
hedge, net of tax											
Unitholders'											
capital as of											
September 30,	64,605	91,682	\$—	\$—	\$773,736	\$102,892	\$(1,184)	\$1,104,921	\$28,904	\$2,009,269	
2017											

Please see accompanying notes to condensed consolidated financial statements.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2018

(\$ in thousands, except where noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Oaktree Capital Group, LLC (together with its subsidiaries, “Oaktree” or the “Company”) is a leader among global investment managers specializing in alternative investments. Oaktree emphasizes an opportunistic, value-oriented and risk-controlled approach to investments in credit, private equity, real assets and listed equities. Funds managed by Oaktree (the “Oaktree funds”) include commingled funds, separate accounts, collateralized loan obligation vehicles (“CLOs”) and publicly-traded business development companies (“BDCs”). Commingled funds include open-end and closed-end limited partnerships in which the Company makes an investment and for which it serves as the general partner. CLOs are structured finance vehicles in which the Company typically makes an investment and for which it serves as collateral manager.

Oaktree Capital Group, LLC is a Delaware limited liability company that was formed on April 13, 2007. The Company is owned by its Class A and Class B unitholders and its preferred unitholders. Oaktree Capital Group Holdings GP, LLC acts as the Company’s manager and is the general partner of Oaktree Capital Group Holdings, L.P. (“OCGH”), which owns 100% of the Company’s outstanding Class B units. OCGH is owned by the Company’s senior executives, current and former employees, and certain other investors (collectively, the “OCGH unitholders”). The Company’s operations are conducted through a group of operating entities collectively referred to as the “Oaktree Operating Group.” OCGH has a direct economic interest in the Oaktree Operating Group and the Company has an indirect economic interest in the Oaktree Operating Group. The interests in the Oaktree Operating Group are referred to as the “Oaktree Operating Group units.” An Oaktree Operating Group unit is not a separate legal interest but represents one limited partnership interest in each of the Oaktree Operating Group entities. Class A units are entitled to one vote per unit. Class B units are entitled to ten votes per unit and do not represent an economic interest in the Company. The number of Class B units held by OCGH increases or decreases in response to corresponding changes in OCGH’s economic interest in the Oaktree Operating Group; consequently, the OCGH unitholders’ economic interest in the Oaktree Operating Group is reflected within non-controlling interests in consolidated subsidiaries in the accompanying condensed consolidated financial statements.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) such that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries and entities in which the Company is deemed to have a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. Certain of the Oaktree funds consolidated by the Company are investment companies that follow a specialized basis of accounting established by GAAP. All intercompany transactions and balances have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) on February 23, 2018.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies of the Company

Consolidation

The Company consolidates entities in which it has a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. A limited partnership or similar entity is a variable interest entity (“VIE”) if the unaffiliated limited partners do not have substantive kick-out or participating rights. Most of the Oaktree funds are VIEs because they have not granted unaffiliated limited partners substantive kick-out or participating rights. The Company consolidates those VIEs in which it is the primary beneficiary. An entity is deemed to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Company holds a variable interest is a VIE and (b) whether the Company’s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance-based fees), would give it a controlling financial interest. A decision maker’s fee arrangement is not considered a variable interest if (a) it is compensation for services provided, commensurate with the level of effort required to provide those services, and part of a compensation arrangement that includes only terms, conditions or amounts that are customarily present in arrangements for similar services negotiated at arm’s length (“at-market”), and (b) the decision maker does not hold any other variable interests that absorb more than an insignificant amount of the potential VIE’s expected residual returns. The Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly by the Company or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Company is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Company, affiliates of the Company or third parties) or amendments to the governing documents of the respective Oaktree funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. The Company does not consolidate most of the Oaktree funds because it is not the primary beneficiary of those funds due to the fact that its fee arrangements are considered at-market and thus not deemed to be variable interests, and it does not hold any other interests in those funds that are considered to be more than insignificant. Please see note 5 for more information regarding both consolidated and unconsolidated VIEs. For entities that are not VIEs, consolidation is evaluated through a majority voting interest model.

“Consolidated funds” refers to Oaktree-managed funds and CLOs that the Company is required to consolidate. When funds or CLOs are consolidated, the Company reflects the assets, liabilities, revenues, expenses and cash flows of the funds or CLOs on a gross basis, and the majority of the economic interests in those funds or CLOs, which are held by third-party investors, are reflected as non-controlling interests in consolidated funds or debt obligations of CLOs in the condensed consolidated financial statements. All of the revenues earned by the Company as investment manager of the consolidated funds are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by third-party investors, the consolidation of a fund does not impact net income or loss attributable to the Company.

Certain entities in which the Company has the ability to exert significant influence, including unconsolidated Oaktree funds for which the Company acts as general partner, are accounted for under the equity method of accounting.

Non-controlling Redeemable Interests in Consolidated Funds

The Company records non-controlling interests to reflect the economic interests of the unaffiliated limited partners. These interests are presented as non-controlling redeemable interests in consolidated funds within the condensed consolidated statements of financial condition, outside of the permanent capital section. Limited

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

partners in open-end and evergreen funds generally have the right to withdraw their capital, subject to the terms of the respective limited partnership agreements, over periods ranging from one month to three years. While limited partners in consolidated closed-end funds generally have not been granted redemption rights, these limited partners do have withdrawal or redemption rights in certain limited circumstances that are beyond the control of the Company, such as instances in which retaining the limited partnership interest could cause the limited partner to violate a law, regulation or rule.

The allocation of net income or loss to non-controlling redeemable interests in consolidated funds is based on the relative ownership interests of the unaffiliated limited partners after the consideration of contractual arrangements that govern allocations of income or loss. At the consolidated level, potential incentives are allocated to non-controlling redeemable interests in consolidated funds until such incentives become allocable to the Company under the substantive contractual terms of the limited partnership agreements of the funds.

Non-controlling Interests in Consolidated Funds

Non-controlling interests in consolidated funds represent the equity interests held by third-party investors in CLOs that had not yet priced as of the respective period end. All non-controlling interests in those CLOs are attributed a share of income or loss arising from the respective CLO based on the relative ownership interests of third-party investors after consideration of contractual arrangements that govern allocations of income or loss. Investors in those CLOs are generally unable to redeem their interests until the respective CLO liquidates, is called or otherwise terminates.

Non-controlling Interests in Consolidated Subsidiaries

Non-controlling interests in consolidated subsidiaries reflect the portion of unitholders' capital attributable to OCGH unitholders ("OCGH non-controlling interest") and third parties. All non-controlling interests in consolidated subsidiaries are attributed a share of income or loss in the respective consolidated subsidiary based on the relative economic interests of the OCGH unitholders or third parties after consideration of contractual arrangements that govern allocations of income or loss. Please see note 13 for more information.

Acquisitions

The Company accounts for business combinations using the acquisition method of accounting, which requires the use of estimates and judgment to measure the fair value of identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquiree as of the acquisition date. Contingent consideration that is determined to be part of the business combination is recognized at fair value as of the acquisition date and is included in the purchase price. Transaction costs are expensed as incurred.

Transactions that do not meet the definition of a business are accounted for as asset acquisitions. The cost of an asset acquisition is allocated to the individual assets acquired and liabilities assumed on a relative fair value basis.

Transaction costs are included in the cost of the acquisition and no goodwill is recognized.

Goodwill and Intangibles

Goodwill represents the excess of cost over the fair value of identifiable net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead is tested for impairment annually in the fourth quarter of each fiscal year, or more frequently when events or circumstances indicate that impairment may have occurred.

The Company's acquired identifiable intangible assets primarily relate to contractual rights to earn future management fees and incentive income. Finite-lived intangible assets are amortized over their estimated useful lives, which range from seven to 25 years, and are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Fair Value of Financial Instruments

GAAP establishes a hierarchical disclosure framework that prioritizes the inputs used in measuring financial instruments at fair value into three levels based on their market observability. Market price observability is affected by a number of factors, such as the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available quoted prices from an active market or for which fair value can be measured based on actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment inherent in measuring fair value.

Financial assets and liabilities measured and reported at fair value are classified as follows:

Level I – Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement. The types of investments in Level I include exchange-traded equities, debt and derivatives with quoted prices.

Level II – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are directly or indirectly observable. Level II inputs include interest rates, yield curves, volatilities, prepayment risks, loss severities, credit risks and default rates. The types of investments in Level II generally include corporate bonds and loans, government and agency securities, less liquid and restricted equity investments, over-the-counter traded derivatives, debt obligations of consolidated CLOs, and other investments where the fair value is based on observable inputs.

Level III – Valuations for which one or more significant inputs are unobservable. These inputs reflect the Company's assessment of the assumptions that market participants use to value the investment based on the best available information. Level III inputs include prices of quoted securities in markets for which there are few transactions, less public information exists or prices vary among brokered market makers. The types of investments in Level III include non-publicly traded equity, debt, real estate and derivatives.

In some instances, the inputs used to value an instrument may fall into multiple levels of the fair-value hierarchy. In such instances, the instrument's level within the fair-value hierarchy is based on the lowest of the three levels (with Level III being the lowest) that is significant to the fair-value measurement. The Company's assessment of the significance of an input requires judgment and considers factors specific to the instrument. Transfers of assets into or out of each fair value hierarchy level as a result of changes in the observability of the inputs used in measuring fair value are accounted for as of the beginning of the reporting period. Transfers resulting from a specific event, such as a reorganization or restructuring, are accounted for as of the date of the event that caused the transfer.

In the absence of observable market prices, the Company values Level III investments using valuation methodologies applied on a consistent basis. The quarterly valuation process for Level III investments begins with each portfolio company, property or security being valued by the investment and/or valuation teams. With the exception of open-end funds, all unquoted Level III investment values are reviewed and approved by (i) the Company's valuation officer, who is independent of the investment teams, (ii) a designated investment professional of each strategy and (iii) for a substantial majority of unquoted Level III holdings as measured by market value, a valuation committee of the respective strategy. For open-end funds, unquoted Level III investment values are reviewed and approved by the Company's valuation officer. For certain investments, the valuation process also includes a review by independent valuation parties, at least annually, to determine whether the fair values determined by management are reasonable. Results of the valuation process are evaluated each quarter, including an assessment of whether the underlying calculations should be adjusted or recalibrated. In connection with this process, the Company periodically evaluates changes in fair-value measurements for reasonableness, considering items such as industry trends, general economic and market conditions, and factors specific to the investment.

Certain assets are valued using prices obtained from pricing vendors or brokers. The Company seeks to obtain prices from at least two pricing vendors for the subject or similar securities. In cases where vendor pricing is not reflective of fair value, a secondary vendor is unavailable, or no vendor pricing is available, a comparison value made up of quotes

for the subject or similar securities received from broker dealers may be used. These investments may be classified as Level III because the quoted prices may be indicative in nature for securities that

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions. The Company evaluates the prices obtained from brokers or pricing vendors based on available market information, including trading activity of the subject or similar securities, or by performing a comparable security analysis to ensure that fair values are reasonably estimated. The Company also performs back-testing of valuation information obtained from pricing vendors and brokers against actual prices received in transactions. In addition to ongoing monitoring and back-testing, the Company performs due diligence procedures surrounding pricing vendors to understand their methodology and controls to support their use in the valuation process.

Fair Value Option

The Company has elected the fair value option for certain corporate investments that otherwise would not have reflected unrealized gains and losses in current-period earnings. Such election is irrevocable and is applied on an investment-by-investment basis at initial recognition. Unrealized gains and losses resulting from changes in fair value are reflected as a component of investment income in the condensed consolidated statements of operations. The Company's accounting for these investments is similar to its accounting for investments held by the consolidated funds at fair value and the valuation methods are consistent with those used to determine the fair value of the consolidated funds' investments.

The Company has elected the fair value option for the financial assets and financial liabilities of its consolidated CLOs. The assets and liabilities of CLOs are primarily reflected within the investments, at fair value and within the debt obligations of CLOs line items in the condensed consolidated statements of financial condition. The Company's accounting for CLO assets is similar to its accounting for its funds with respect to both carrying investments held by CLOs at fair value and the valuation methods used to determine the fair value of those investments. The fair value of CLO liabilities are measured as the fair value of CLO assets less the sum of (a) the fair value of any beneficial interests held by the Company and (b) the carrying value of any beneficial interests that represent compensation for services. Realized gains or losses and changes in the fair value of CLO assets, respectively, are included in net realized gain on consolidated funds' investments and net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Interest income of CLOs is included in interest and dividend income, and interest expense and other expenses, respectively, are included in interest expense and consolidated fund expenses in the condensed consolidated statements of operations. Changes in the fair value of a CLO's financial liabilities in accordance with the CLO measurement guidance are included in net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Please see notes 7 and 11 for more information.

Accounting Policies of Consolidated Funds

Investments, at Fair Value

The consolidated funds include investment limited partnerships and CLOs that reflect their investments, including majority-owned and controlled investments, at fair value. The Company has retained the specialized investment company accounting guidance under GAAP for investment limited partnerships with respect to consolidated investments and has elected the fair value option for the financial assets of CLOs. Thus, the consolidated investments are reflected in the condensed consolidated statements of financial condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Non-publicly traded debt and equity securities and other securities or instruments for which reliable market quotations are not available are valued by management using valuation methodologies applied on a consistent basis. These securities may initially be valued at the acquisition price as the best indicator of fair value. The Company reviews the significant unobservable inputs, valuations of comparable investments and other similar transactions for investments

valued at acquisition price to determine whether another valuation methodology should be utilized. Subsequent valuations will depend on the facts and circumstances known as of the valuation date and the application of valuation methodologies as further described below under “—Non-publicly Traded Equity and

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Real Estate Investments.” The fair value may also be based on a pending transaction expected to close after the valuation date.

Exchange-traded Investments

Securities listed on one or more national securities exchanges are valued at their last reported sales price on the date of valuation. If no sale occurred on the valuation date, the security is valued at the mean of the last “bid” and “ask” prices on the valuation date. Securities that are not readily marketable due to legal restrictions that may limit or restrict transferability are generally valued at a discount from quoted market prices. The discount would reflect the amount market participants would require due to the risk relating to the inability to access a public market for the security for the specified period and would vary depending on the nature and duration of the restriction and the perceived risk and volatility of the underlying securities. Securities with longer duration restrictions or higher volatility are generally valued at a higher discount. Such discounts are generally estimated based on put option models or an analysis of market studies. Instances where the Company has applied discounts to quoted prices of restricted listed securities have been infrequent. The impact of such discounts is not material to the Company’s condensed consolidated statements of financial condition and results of operations for all periods presented.

Credit-oriented Investments (including Real Estate Loan Portfolios)

Investments in corporate and government debt which are not listed or admitted to trading on any securities exchange are valued at the mean of the last bid and ask prices on the valuation date based on quotations supplied by recognized quotation services or by reputable broker-dealers.

The market-yield approach is considered in the valuation of non-publicly traded debt securities, utilizing expected future cash flows and discounted using estimated current market rates. Discounted cash-flow calculations may be adjusted to reflect current market conditions and/or the perceived credit risk of the borrower. Consideration is also given to a borrower’s ability to meet principal and interest obligations; this may include an evaluation of collateral and/or the underlying value of the borrower utilizing techniques described below under “—Non-publicly Traded Equity and Real Estate Investments.”

Non-publicly Traded Equity and Real Estate Investments

The fair value of equity and real estate investments is determined using a cost, market or income approach. The cost approach is based on the current cost of reproducing a real estate investment less deterioration and functional and economic obsolescence. The market approach utilizes valuations of comparable public companies and transactions, and generally seeks to establish the enterprise value of the portfolio company or investment property using a market-multiple methodology. This approach takes into account the financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company or investment property. Consideration also may be given to factors such as acquisition price of the security or investment property, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company or investment property relative to its comparable companies or properties, industry trends, general economic and market conditions, and others deemed relevant. The income approach is typically a discounted cash-flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount and capitalization rates, capital structure, terminal values, and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions.

The valuation of securities may be impacted by expectations of investors’ receptiveness to a public offering of the securities, the size of the holding of the securities and any associated control, information with respect to transactions or offers for the securities (including the transaction pursuant to which the investment was made and the elapsed time from the date of the investment to the valuation date), and applicable restrictions on the transferability of the securities.

These valuation methodologies involve a significant degree of management judgment. Accordingly, valuations by the Company do not necessarily represent the amounts that eventually may be realized from sales or other dispositions of investments. Fair values may differ from the values that would have been used had a ready

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

market for the investment existed, and the differences could be material to the condensed consolidated financial statements.

Recent Accounting Developments

In August 2018, the Financial Accounting Standards Board (“FASB”) issued guidance that changes the fair value measurement disclosure requirements. The amendments remove or modify certain disclosures, while others were added. The guidance is effective for the Company in the first quarter of 2020, with early adoption permitted. The Company expects that adoption of this guidance will not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairments by eliminating step 2 of the goodwill impairment test. This step currently requires an entity to perform a hypothetical purchase price allocation to derive the implied fair value of goodwill. Under the new guidance, an impairment loss is recognized if the carrying value of a reporting unit exceeds its fair value. The impairment loss would equal the amount of that excess, limited to the total amount of goodwill. All other goodwill impairment guidance remains largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance is effective for the Company in the first quarter of 2020 on a prospective basis, with early adoption permitted. The Company expects that adoption of this guidance will not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amendments add to or clarify guidance on a number of cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, distributions received from equity-method investees and beneficial interests in securitization transactions. The Company adopted this guidance in the first quarter of 2018 on a retrospective basis. The impact of adoption was not material to the Company’s consolidated financial statements.

In February 2016, the FASB issued guidance that will require a lessee to recognize a lease asset and a lease liability for most of its operating leases. Under current GAAP, operating leases are not recognized by a lessee in its statements of financial position. In general, the new asset and liability will each equal the present value of lease payments. The guidance does not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee. The Company expects to adopt the guidance in the first quarter of 2019 under the simplified transition method. The simplified transition method allows companies to forgo the comparative reporting requirements initially required under the modified retrospective transition approach and apply the new guidance prospectively. The Company does not expect that adoption will have a material impact on the consolidated statements of operations because all of the Company’s leases are currently classified as operating leases, which under the guidance will continue to be recognized as expense on a straight-line basis. The adoption, however, will result in a significant gross-up in total assets and total liabilities on the consolidated statements of financial position. As of September 30, 2018, the gross-up impact is estimated to be approximately \$125 million, which represents the aggregate discounted amount of the Company’s minimum lease payments under lease obligations as of that date.

In May 2014, the FASB issued guidance on revenue recognition that superseded most existing revenue recognition guidance, including industry-specific guidance. The guidance outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and provides a largely principles-based framework for addressing revenue recognition issues on a comprehensive basis. Under the guidance, revenue is recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration for which the entity expects to be entitled for that good or service. The guidance also requires qualitative and quantitative disclosures about revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts, significant judgments and changes in those judgments made by management in recognizing revenue, disaggregation of revenue, and information about

contract balances. The Company adopted this guidance in the first quarter of 2018 on a modified retrospective basis. The most significant effect of the guidance for the Company relates to the recognition of incentive income. The guidance requires the Company to recognize incentive income when it concludes that it is probable that significant reversals of revenue will not occur in subsequent periods. Under legacy

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

GAAP, the amount of incentive income recognized by the Company was generally limited to the amount not contingent on a future event. Upon adoption, the Company recorded a cumulative-effect increase to unitholders' capital of \$48.7 million, net of tax, as of January 1, 2018. This adjustment relates to incentive income that would have met the "probable that significant reversal will not occur" criteria as of that date. In addition, effective January 1, 2018, certain reimbursements received by the Company from the investment funds it manages are reported as revenues on a gross basis with an equal offset to expenses in the consolidated statements of operations. Please see note 4 for more information on revenues.

3. ACQUISITIONS

On October 17, 2017, the Company completed a transaction in which it became the new investment adviser to two business development companies (the "BDCs"): Oaktree Specialty Lending Corporation (NASDAQ: OCSL) and Oaktree Strategic Income Corporation (NASDAQ: OCSI). Upon the closing of the transaction (the "BDC acquisition"), the Company paid \$320.0 million in cash to Fifth Street Management LLC ("FSM"), net of certain transaction-related expenses, for all of FSM's right, title and interest in specified business records related to FSM's then-existing investment advisory agreements with each BDC. The transaction was accounted for as an asset acquisition. The net purchase price was \$319.4 million, consisting of the \$320.0 million cash payment, net of certain transaction-related expenses and reimbursements received from the seller. Substantially all of the purchase price was allocated to finite-lived contractual rights. While FSM pledged cash and other assets with an estimated fair value of \$56.2 million to indemnify the Company or the BDCs against potential claims or assessments, the Company determined that the amount of the potential liability associated with these claims could not be reasonably estimated as of the acquisition date so no amounts were recognized in purchase accounting related to the indemnification agreement.

4. REVENUES

On January 1, 2018, the Company adopted the new revenue recognition standard on a modified retrospective basis. As a result, prior period amounts continue to be reported under historic GAAP. Upon adoption, the Company recorded a cumulative-effect increase to unitholders' capital as of January 1, 2018 of \$48.7 million, net of tax. This adjustment relates to incentive income that would have met the "probable that significant reversal will not occur" criteria as of January 1, 2018 under the new revenue standard.

Revenue Recognition

The Company earns management fees and incentive income from the investment advisory services it provides to its customers. Revenue is recognized when control of the promised services is transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services. The Company typically enters into contracts with investment funds to provide investment management and administrative services. These services are generally capable of being distinct and each is accounted for as separate performance obligations comprised of distinct service periods because the services are performed over time. The Company determined that for accounting purposes the investment funds are generally considered to be the customers with respect to commingled funds, while the individual investors are the customers with respect to separate account and fund-of-one vehicles. The Company receives management fees and/or incentive income with respect to its investment management services, and it is reimbursed by the funds for expenses incurred or paid on behalf of the funds with respect to its investment advisory services and its administrative services. The Company evaluates whether it is the principal (i.e., report as management fees on a gross basis) or agent (i.e., report as management fees on a net basis) with respect to each performance obligation and associated reimbursement arrangements. The Company has elected to apply the variable consideration exemption for its fee arrangements with its customers.

Management Fees

Management fees are recognized over the period in which the investment management services are performed because customers simultaneously consume and receive benefits that are satisfied over time. The contractual terms of management fees generally vary by fund structure. For most closed-end funds, the management fee rate is applied

against committed capital during the fund's investment period and the lesser of total

14

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

funded capital or cost basis of assets in the liquidation period. Certain closed-end funds pay management fees during the investment period based on drawn capital or cost basis. Additionally, for closed-end funds that pay management fees based on committed capital, the Company may elect to delay the start of the fund's investment period and thus its full management fees, in which case it earns management fees based on drawn capital, and in certain cases outstanding borrowings under a fund-level credit facility made in lieu of drawing capital, until the Company elects to start the fund's investment period. In the case of CLOs, the management fee is based on the aggregate par value of collateral assets and principal cash, as defined in the applicable CLO indentures, and a portion of the management fees is dependent on the sufficiency of the particular vehicle's cash flow. For open-end and evergreen funds, the management fee is generally based on the NAV of the fund. For the publicly-traded BDCs, the management fee is based on gross assets (including assets acquired with leverage), net of cash. In the case of certain open-end fund accounts, the Company has the potential to earn performance-based fees, typically in reference to a relevant benchmark index or hurdle rate, which are classified as management fees. The Company also earns quarterly incentive fees on the investment income from certain evergreen funds, such as the publicly-traded BDCs and other fund accounts, which are generally recurring in nature and reflected as management fees.

The ultimate amount of management fees that will be earned over the life of the contract is subject to a large number and broad range of possible outcomes due to market volatility and other factors outside of the Company's control. As a result, the amount of revenue earned in any given period is generally determined at the end of each reporting period and relates to services performed during that period. The impact on management fees as a result of applying the new revenue standard for the three and nine months ended September 30, 2018 was an increase of \$2.8 million and \$9.5 million, respectively. This amount relates to the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company has determined it is the principal. Such costs are presented in compensation and benefits and general and administrative expenses.

Incentive Income

Incentive income generally represents 20% of each closed-end fund's profits, subject to the return of contributed capital and a preferred return of typically 8% per annum, and up to 20% of certain evergreen fund's annual profits, subject to high-water marks or hurdle rates. Incentive income is recognized when it is probable that a significant reversal will not occur. Revenue recognition is typically met (a) for closed-end funds, only after all contributed capital and the preferred return on that capital have been distributed to the fund's investors, and (b) for certain evergreen funds, at the conclusion of each annual measurement period. Potential incentive income is highly susceptible to market volatility, the judgment and actions of third parties, and other factors outside of the Company's control. The Company's experience has demonstrated little predictive value in the amount of potential incentive income ultimately earned due to the highly uncertain nature of returns inherent in the markets and contingencies associated with many realization events. As a result, the amount of incentive income recognized in any given period is generally determined after giving consideration to a number of factors, including whether the fund is in its investment or liquidation period, and the nature and level of risk associated with changes in fair value of the remaining assets in the fund. In general, it would be unlikely that any amount of potential incentive income would be recognized until (a) the uncertainty is resolved or (b) the fund is near final liquidation, assets are under contract for sale or are of low risk of significant fluctuation in fair value, and the assets are significantly in excess of the threshold at which incentive income would be earned. The impact on incentive income as a result of applying the new revenue standard for the three and nine months ended September 30, 2018 was a decrease of \$4.9 million and \$52.0 million, respectively.

Incentives received by Oaktree before the revenue recognition criteria have been met are deferred and recorded as a deferred incentive income liability within accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. The Company may receive tax distributions related to taxable income allocated by funds, which are treated as an advance of incentive income and subject to the same recognition criteria. Tax distributions are contractually not subject to clawback.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

The following schedule presents revenues disaggregated by fund structure, each of which is affected by economic factors related to the asset class composition of the holdings and the contractual terms such as the basis for calculating the management fees and investors' ability to redeem:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Management Fees				
Closed-end	\$112,415	\$126,973	\$353,225	\$380,951
Open-end	34,942	40,669	109,051	120,897
Evergreen	27,838	13,670	76,430	40,420
Total	\$175,195	\$181,312	\$538,706	\$542,268

Incentive Income

Closed-end	\$65,661	\$53,537	\$249,447	\$611,902
Evergreen	371	183	3,678	4,502
Total	\$66,032	\$53,720	\$253,125	\$616,404

Contract Balances

The Company receives management fees monthly or quarterly in accordance with its contracts with customers. Incentive income is received when the fund makes a distribution. Contract assets relate to the Company's conditional right to receive payment for its performance completed under the contract. Receivables are recorded when the right to consideration becomes unconditional (i.e., only requires the passage of time). Contract liabilities (i.e., deferred revenues) relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenues when the Company provides investment management services.

The table below sets forth contract balances for the periods indicated:

	As of SeptemberDecember 30, 2018 31, 2017	
Receivables ⁽¹⁾	\$55,552	\$98,738
Contract assets ⁽¹⁾	20,500	54,221
Contract liabilities ⁽²⁾	(31,166)	(25,297)

(1) The decline in balances was primarily related to payments received, net of accruals.

(2) Revenue recognized in the three and nine months ended September 30, 2018 from amounts included in the contract liability balance was \$2.3 million and \$23.9 million, respectively.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

5. VARIABLE INTEREST ENTITIES

The Company consolidates VIEs for which it is the primary beneficiary. VIEs include funds managed by Oaktree and CLOs for which Oaktree acts as collateral manager. The purpose of these VIEs is to provide investment opportunities for investors in exchange for management fees and, in certain cases, performance-based fees. While the investment strategies of the funds and CLOs differ by product, in general the fundamental risks of the funds and CLOs have similar characteristics, including loss of invested capital and reduction or absence of management and performance-based fees. As general partner or collateral manager, respectively, Oaktree generally considers itself the sponsor of the applicable fund or CLO. The Company does not provide performance guarantees and, other than capital commitments, has no financial obligation to provide funding to VIEs.

Consolidated VIEs

As of September 30, 2018, the Company consolidated 20 VIEs for which it was the primary beneficiary, including 10 funds managed by Oaktree, nine CLOs for which Oaktree serves as collateral manager, and Oaktree AIF Holdings, Inc., which was formed to hold certain assets for regulatory and other purposes. Two of the consolidated funds, Oaktree Enhanced Income Retention Holdings III, LLC and Oaktree CLO RR Holder, LLC, were formed to satisfy risk retention requirements under Section 15G of the Exchange Act. One of the CLOs had not priced as of September 30, 2018. As of December 31, 2017, the Company consolidated 21 VIEs.

As of September 30, 2018, the assets and liabilities of the 19 consolidated VIEs representing funds and CLOs amounted to \$6.0 billion and \$4.8 billion, respectively. The assets of these consolidated VIEs primarily consisted of investments in debt and equity securities, while their liabilities primarily represented debt obligations issued by CLOs. The assets of these VIEs may be used only to settle obligations of the same VIE. In addition, there is no recourse to the Company for the VIEs' liabilities. In exchange for managing either the funds' or CLOs' collateral, the Company typically earns management fees and may earn performance fees, all of which are eliminated in consolidation. As of September 30, 2018, the Company's investments in consolidated VIEs had a carrying value of \$506.5 million, which represented its maximum risk of loss as of that date. The Company's investments in CLOs are generally subordinated to other interests in the CLOs and entitle the Company to receive a pro-rata portion of the residual cash flows, if any, from the CLOs. Please see note 11 for more information on CLO debt obligations.

Unconsolidated VIEs

The Company holds variable interests in certain VIEs in the form of direct equity interests that are not consolidated because it is not the primary beneficiary, inasmuch as its fee arrangements are considered at-market and it does not hold interests in those entities that are considered more than insignificant.

The carrying value of the Company's investments in VIEs that were not consolidated are shown below.

	Carrying Value as of	
	September	December
	30, 2018	31, 2017
Corporate investments	\$963,239	\$930,699
Due from affiliates	88,390	160,257
Maximum exposure to loss	\$1,051,629	\$1,090,956

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

6. INVESTMENTS

Corporate Investments

Corporate investments consist of investments in funds and companies in which the Company does not have a controlling financial interest. Investments for which the Company is deemed to exert significant influence are accounted for under the equity method of accounting and reflect Oaktree's ownership interest in each fund or company. In the case of investments for which the Company is not deemed to exert significant influence or control, the fair value option of accounting has been elected. Investment income represents the Company's pro-rata share of income or loss from these funds or companies, or the change in fair value of the investment, as applicable. Oaktree's general partnership interests are substantially illiquid. While investments in funds reflect each respective fund's holdings at fair value, equity-method investments in DoubleLine Capital LP and its affiliates (collectively, "DoubleLine") and other companies are not adjusted to reflect the fair value of the underlying company. The fair value of the underlying investments in Oaktree funds is based on the Company's assessment, which takes into account expected cash flows, earnings multiples and/or comparisons to similar market transactions, among other factors. Valuation adjustments reflecting consideration of credit quality, concentration risk, sales restrictions and other liquidity factors are integral to valuing these instruments.

Corporate investments consisted of the following:

	As of	
	September	December
Corporate Investments	30, 2018	31, 2017

Equity-method investments:

Funds	\$958,265	\$916,559
Companies	26,367	42,294
Other investments, at fair value	70,719	50,778
Total corporate investments	\$1,055,351	\$1,009,631

The components of investment income are set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment Income				

Equity-method investments:

Funds	\$39,041	\$34,733	\$92,105	\$104,216
Companies	18,870	17,441	54,438	52,164
Other investments, at fair value	285	(1,113)	3,139	(5,762)
Total investment income	\$58,196	\$51,061	\$149,682	\$150,618

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Equity-method Investments

The Company's equity-method investments include its investments in Oaktree funds for which it serves as general partner and other third-party funds and companies that are not consolidated but for which the Company is deemed to exert significant influence. The Company's share of income or loss generated by these investments is recorded within investment income in the condensed consolidated statements of operations. The Company's equity-method investments in Oaktree funds principally reflect the Company's general partner interests in those funds, which typically does not exceed 2.5% in each fund. The Oaktree funds are investment companies that follow a specialized basis of accounting established by GAAP. Equity-method investments in companies include the Company's one-fifth equity stake in DoubleLine.

Each reporting period, the Company evaluates each of its equity-method investments to determine if any are considered significant, as defined by the SEC. As of or for the year ended December 31, 2017, no individual equity-method investment met the significance criteria. As a result, separate financial statements were not required for any of the Company's equity-method investments.

Summarized financial information of the Company's equity-method investments is set forth below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Statements of Operations	2018	2017	2018	2017
Revenues / investment income	\$489,240	\$387,281	\$1,423,993	\$1,464,961
Interest expense	(70,803)	(62,636)	(203,418)	(167,507)
Other expenses	(210,752)	(205,998)	(628,109)	(618,255)
Net realized and unrealized gain on investments	832,725	1,066,616	2,178,524	2,933,914
Net income	\$1,040,410	\$1,185,263	\$2,770,990	\$3,613,113

Other Investments, at Fair Value

Other investments, at fair value primarily consist of (a) investments in certain Oaktree and non-Oaktree funds for which the fair value option of accounting has been elected and (b) derivatives utilized to hedge the Company's exposure to investment income earned from its funds.

The following table summarizes net gains (losses) attributable to the Company's other investments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Realized gain (loss)	\$104	\$3,697	\$1,072	\$5,252
Net change in unrealized gain (loss)	181	(4,810)	2,067	(11,014)
Total gain (loss)	\$285	\$(1,113)	\$3,139	\$(5,762)

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Investments of Consolidated Funds

Investments, at Fair Value

Investments held and securities sold short by the consolidated funds are summarized below:

	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017		
Investments						
United States:						
Debt securities:						
Communication services	\$442,666	\$178,984	7.4	3.2	%	%
Consumer discretionary	479,398	796,681	8.1	14.0		
Consumer staples	100,650	100,863	1.7	1.8		
Energy	178,494	106,414	3.0	1.9		
Financials	284,437	161,807	4.7	2.9		
Government	2,498	3,033	0.0	0.1		
Health care	476,470	416,779	7.9	7.4		
Industrials	379,776	441,440	6.3	7.8		
Information technology	466,062	431,010	7.8	7.6		
Materials	294,444	384,310	4.9	6.8		
Real estate	174,245	146,836	2.9	2.6		
Utilities	103,609	117,805	1.7	2.1		
Total debt securities (cost: \$3,386,701 and \$3,284,346 as of September 30, 2018 and December 31, 2017, respectively)	3,382,749	3,285,962	56.4	58.2		
Equity securities:						
Communication services	220	305	0.0	0.0		
Consumer discretionary	1,735	1,778	0.0	0.0		
Energy	136	649	0.0	0.0		
Financials	1,255	3,061	0.0	0.1		
Health care	1,291	527	0.0	0.0		
Industrials	52,135	316	1.0	0.0		
Utilities	1,107	1,192	0.0	0.0		
Total equity securities (cost: \$58,323 and \$8,102 as of September 30, 2018 and December 31, 2017, respectively)	57,879	7,828	1.0	0.1		
Real estate:						
Real estate	—	121,588	—	2.1		
Total real estate securities (cost: \$0 and \$121,582 as of September 30, 2018 and December 31, 2017, respectively)	—	121,588	—	2.1		

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017		
Investments						
Europe:						
Debt securities:						
Communication services	\$502,581	\$278,358	8.4	4.9	%	%
Consumer discretionary	480,925	573,270	8.0	10.1		
Consumer staples	145,166	121,636	2.4	2.1		
Energy	13,146	5,929	0.2	0.1		
Financials	46,370	40,130	0.8	0.7		
Health care	400,500	333,693	6.7	5.9		
Industrials	242,496	163,972	4.0	2.9		
Information technology	177,836	95,409	3.0	1.7		
Materials	256,671	267,252	4.3	4.7		
Real estate	24,137	12,528	0.4	0.2		
Utilities	1,172	8,949	0.0	0.2		
Total debt securities (cost: \$2,292,008 and \$1,894,727 as of September 30, 2018 and December 31, 2017, respectively)	2,291,000	1,901,126	38.2	33.5		
Equity securities:						
Consumer staples	31	1,449	0.0	0.0		
Energy	—	3,827	—	0.1		
Financials	—	7,410	—	0.1		
Health care	1,310	601	0.0	0.0		
Materials	—	1,622	—	0.0		
Total equity securities (cost: \$343 and \$12,787 as of September 30, 2018 and December 31, 2017, respectively)	1,341	14,909	0.0	0.2		
Asia and other:						
Debt securities:						
Communication services	7,370	8,104	0.1	0.1		
Consumer discretionary	34,970	30,332	0.6	0.5		
Consumer staples	12,160	748	0.2	0.0		
Energy	17,355	10,175	0.3	0.2		
Financials	9,286	20,362	0.2	0.4		
Government	2,662	—	0.0	—		
Health care	2,529	13,806	0.0	0.2		
Industrials	37,547	22,935	0.6	0.4		
Information technology	796	536	0.0	0.0		
Materials	17,146	8,515	0.3	0.2		
Real estate	41,576	6,272	0.7	0.1		
Utilities	5,517	769	0.1	0.0		

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Total debt securities (cost: \$188,561 and \$124,723 as of September 30, 2018 and December 31, 2017, respectively)	188,914	122,554	3.1	2.1
--	---------	---------	-----	-----

21

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Investments	Fair Value as of		Fair Value as a Percentage of Investments of Consolidated Funds as of			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017		
Asia and other:						
Equity securities:						
Communication services	\$—	\$1,735	—	% 0.0	%	
Consumer discretionary	1,840	29,026	0.0	0.5		
Consumer staples	1,604	7,279	0.0	0.1		
Energy	526	5,551	0.0	0.1		
Financials	25,498	58,632	0.4	1.2		
Industrials	26,301	34,019	0.4	0.7		
Information technology	3,234	23,900	0.2	0.4		
Materials	12,848	28,590	0.2	0.5		
Real estate	6,947	15,339	0.1	0.3		
Utilities	—	2,502	—	0.0		
Total equity securities (cost: \$72,166 and \$185,164 as of September 30, 2018 and December 31, 2017, respectively)	78,798	206,573	1.3	3.8		
Total debt securities	5,862,663	5,309,642	97.7	93.8		
Total equity securities	138,018	229,310	2.3	4.1		
Total real estate securities	—	121,588	—	2.1		
Total investments, at fair value	\$6,000,681	\$5,660,540	100.0%	100.0	%	
Securities Sold Short						
Equity securities (proceeds: \$19,112 and \$82,502 as of September 30, 2018 and December 31, 2017, respectively)	\$(19,463	) \$(86,467	)			
As of September 30, 2018 and December 31, 2017, no single issuer or investment had a fair value that exceeded 5% of Oaktree's total consolidated net assets.						

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Net Gains (Losses) From Investment Activities of Consolidated Funds

Net gains (losses) from investment activities in the condensed consolidated statements of operations consist primarily of realized and unrealized gains and losses on the consolidated funds' investments (including foreign-exchange gains and losses attributable to foreign-denominated investments and related activities) and other financial instruments. Unrealized gains or losses result from changes in the fair value of these investments and other financial instruments. Upon disposition of an investment, unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The following table summarizes net gains (losses) from investment activities:

	Three Months Ended September 30,			
	2018		2017	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments	\$(11,493)	\$ 51,969	\$3,839	\$ 2,012
CLO liabilities ⁽¹⁾	—	(42,458)	—	1,595
Foreign-currency forward contracts ⁽²⁾	1,496	1,193	(555)	200
Total-return and interest-rate swaps ⁽²⁾	—	—	70	(185)
Options and futures ⁽²⁾	185	(152)	38	40
Total	\$(9,812)	\$ 10,552	\$3,392	\$ 3,662

	Nine Months Ended September 30,			
	2018		2017	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Investments and other financial instruments	\$(14,027)	\$ (25,119)	\$6,075	\$ 10,941
CLO liabilities ⁽¹⁾	—	(9,601)	—	44,943
Foreign-currency forward contracts ⁽²⁾	428	17	(945)	(210)
Total-return and interest-rate swaps ⁽²⁾	858	29	(1,398)	813
Options and futures ⁽²⁾	232	(265)	(1,977)	306
Total	\$(12,509)	\$ (34,939)	\$1,755	\$ 56,793

⁽¹⁾ Represents the net change in the fair value of CLO liabilities based on the more observable fair value of CLO assets, as measured under the CLO measurement guidance. Please see note 2 for more information.

⁽²⁾ Please see note 8 for additional information.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

7. FAIR VALUE

Fair Value of Financial Assets and Liabilities

The short-term nature of cash and cash-equivalents, receivables and accounts payable causes each of their carrying values to approximate fair value. The fair value of short-term investments included in cash and cash-equivalents is a Level I valuation. The Company's other financial assets and financial liabilities by fair-value hierarchy level are set forth below. Please see notes 11 and 18 for the fair value of the Company's outstanding debt obligations and amounts due from/to affiliates, respectively.

	As of September 30, 2018				As of December 31, 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
U.S. Treasury and other securities ⁽¹⁾	\$469,800	\$—	\$—	\$469,800	\$176,602	\$—	\$—	\$176,602
Corporate investments	—	30,051	40,599	70,650	—	1,833	50,902	52,735
Foreign-currency forward contracts ⁽²⁾	—	2,872	—	2,872	—	5,020	—	5,020
Total assets	\$469,800	\$32,923	\$40,599	\$543,322	\$176,602	\$6,853	\$50,902	\$234,357
Liabilities								
Contingent liability ⁽³⁾	\$—	\$—	\$(6,591)	\$(6,591)	\$—	\$—	\$(18,778)	\$(18,778)
Foreign-currency forward contracts ⁽⁴⁾	—	(1,045)	—	(1,045)	—	(13,154)	—	(13,154)
Cross-currency swap ⁽³⁾	—	(9,119)	—	(9,119)	—	(7,479)	—	(7,479)
Total liabilities	\$—	\$(10,164)	\$(6,591)	\$(16,755)	\$—	\$(20,633)	\$(18,778)	\$(39,411)

(1) Carrying value approximates fair value due to the short-term nature.

Amounts are included in other assets in the condensed consolidated statements of financial condition, except for (2) \$69 as of September 30, 2018, which is included within corporate investments in the condensed consolidated statements of financial condition.

(3) Amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

Amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated (4) statements of financial condition, except for \$1,957 as of December 31, 2017, which is included within corporate investments in the condensed consolidated statements of financial condition.

There were no transfers between Level I and Level II positions for the nine months ended September 30, 2018 and 2017.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

The table below sets forth a summary of changes in the fair value of Level III financial instruments:

	Three Months Ended September 30,			
	2018		2017	
	Corporate Contingent Investment Liability		Corporate Contingent Investment Liability	
Beginning balance	\$31,084	\$ (9,129)	\$77,657	\$ (24,029)
Contributions or additions	10,258	—	5	—
Distributions	(290)	—	(5,482)	—
Net gain (loss) included in earnings	(453)	2,538	3,460	4,921
Ending balance	\$40,599	\$ (6,591)	\$75,640	\$ (19,108)

Net change in unrealized gains (losses) attributable to financial instruments still held at end of period

\$(557) \$ 2,538 \$(239) \$ 4,921

	Nine Months Ended September 30,			
	2018		2017	
	Corporate Contingent Investment Liability		Corporate Contingent Investment Liability	
Beginning balance	\$50,902	\$ (18,778)	\$74,663	\$ (23,567)
Contributions or additions	16,668	—	209	—
Distributions	(31,145)	—	(9,052)	—
Net gain (loss) included in earnings	4,174	12,187	9,820	4,459
Ending balance	\$40,599	\$ (6,591)	\$75,640	\$ (19,108)

Net change in unrealized gains (losses) attributable to financial instruments still held at end of period

\$3,102 \$ 12,187 \$3,788 \$ 4,459

The table below sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the Company's Level III financial instruments:

Financial Instrument	Fair Value as of		Valuation	Significant Unobservable	Range	Weighted
	September 30, 2018	December 31, 2017	Technique	Input		Average
Corporate investment – Limited partnership interests	\$40,599	\$50,902	Market approach (value of underlying assets)	Not applicable	Not applicable	Not applicable
Contingent liability	(6,591)	(18,778)	Discounted cash flow	Assumed % of total potential contingent payments	0% – 100%	23%

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Fair Value of Financial Instruments Held By Consolidated Funds

The short-term nature of cash and cash-equivalents held at the consolidated funds causes their carrying value to approximate fair value. The fair value of cash-equivalents is a Level I valuation. Derivatives may relate to a mix of Level I, II or III investments, and therefore their fair-value hierarchy level may not correspond to the fair-value hierarchy level of the economically hedged investment. The table below summarizes the investments and other financial instruments of the consolidated funds by fair-value hierarchy level:

	As of September 30, 2018				As of December 31, 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investments:								
Corporate debt – bank debt	\$—	\$4,773,586	\$107,891	\$4,881,477	\$—	\$4,340,860	\$86,999	\$4,427,859
Corporate debt – all other	1,132	833,491	146,563	981,186	736	805,659	75,388	881,783
Equities – common stock	80,422	162	54,841	135,425	222,439	65	3,427	225,931
Equities – preferred stock	1,165	13	1,415	2,593	3,041	338	—	3,379
Real estate	—	—	—	—	—	—	121,588	121,588
Total investments	82,719	5,607,252	310,710	6,000,681	226,216	5,146,922	287,402	5,660,540
Derivatives:								
Foreign-currency forward contracts	—	1,700	—	1,700	—	590	—	590
Swaps	—	—	—	—	—	49	—	49
Options and futures	—	—	—	—	92	—	—	92
Total derivatives	—	1,700	—	1,700	92	639	—	731
Total assets	\$82,719	\$5,608,952	\$310,710	\$6,002,381	\$226,308	\$5,147,561	\$287,402	\$5,661,271
Liabilities								
CLO debt obligations:								
Senior secured notes ⁽¹⁾	\$—	\$(3,521,664)	\$—	\$(3,521,664)	\$—	\$(3,107,955)	\$—	\$(3,107,955)
Subordinated notes ⁽¹⁾	—	(126,553)	—	(126,553)	—	(111,637)	—	(111,637)
Total CLO debt obligations	—	(3,648,217)	—	(3,648,217)	—	(3,219,592)	—	(3,219,592)
Securities sold short:								
Equity securities	(19,463)	—	—	(19,463)	(86,467)	—	—	(86,467)
Derivatives:	—	(442)	—	(442)	—	(817)	—	(817)

Foreign-currency
forward
contracts

Swaps	—	—	—	—	—	(136	) —	(136	)
Options and futures	(148	) —	—	(148	) —	—	—	—	
Total derivatives	(148	) (442	) —	(590	) —	(953	) —	(953	)
Total liabilities	\$(19,611)	\$(3,648,659)	\$—	\$(3,668,270)	\$(86,467)	\$(3,220,545)	\$—	\$(3,307,012)	

(1) The fair value of CLO liabilities is classified based on the more observable fair value of CLO assets. Please see notes 2 and 11 for more information.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

The following tables set forth a summary of changes in the fair value of Level III investments:

Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Total
Three Months Ended September 30, 2018					
Beginning balance	\$123,936	\$54,934	\$1,586	\$—	\$263,985
Transfers into Level III	—	—	—	—	7,698
Transfers out of Level III	(11,549)	—	—	—	(11,549)
Purchases	41,063	197	—	—	90,607
Sales	(17,580)	(76)	—	—	(39,909)
Realized gains (losses), net	65	59	—	—	268
Unrealized appreciation (depreciation), net	(921)	(273)	(171)	—	(390)
Ending balance	\$146,563	\$54,841	\$1,415	\$—	\$310,710
Net change in unrealized appreciation (depreciation) attributable to assets still held at	\$(508)	\$(273)	\$(171)	\$—	\$188

end of period Three Months Ended September 30, 2017						
Beginning balance	\$151,229	\$43,469	\$7,287	\$ —	\$ —	\$201,985
Transfers into Level III	349	—	—	—	—	349
Transfers out of Level III	(5,059)	(1,978)	—	—	—	(7,037)
Purchases	21,363	—	—	—	2,494	68,056
Sales	(28,567)	(13,347)	(74)	—	(2,005)	(43,993)
Realized gains (losses), net	(325)	175	—	—	5	(145)
Unrealized appreciation (depreciation), net	2,842	(548)	501	—	11	2,806
Ending balance	\$164,668	\$49,134	\$7,714	\$ —	\$505	\$222,021
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$2,219	\$(538)	\$501	\$ —	\$11	\$2,193

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Corporate Debt – Bank Debt	Corporate Debt – All Other	Equities – Common Stock	Equities – Preferred Stock	Real Estate	Total
Nine Months Ended September 30, 2018					
Beginning balance	\$75,388	\$3,427	\$ —	\$121,588	\$287,402
Deconsolidation of—					
—	—	—	—	(121,087)	(121,087)
Transfers into Level					
36,627	899	490	—	—	38,016
III Transfers out of—					
25,041)	(490)	(658)	—	—	(26,189)
Level					
III Purchases					
58,534	119,328	52,253	1,248	—	231,363
Sales					
15,577)	(47,628)	(387)	—	(501)	(100,093)
Realized gains (losses), net					
612	314	59	—	—	985
Unrealized appreciation (depreciation), net					
1,737	(1,248)	(343)	167	—	313
Ending balance					
\$107,891	\$146,563	\$54,841	\$ 1,415	\$—	\$310,710
Net change in unrealized appreciation (depreciation) attributable to assets still					
\$1,566	\$(1,054)	\$(343)	\$ 167	\$—	\$336

held at end of period Nine Months Ended September 30, 2017						
Beginning balance	\$208,868	\$28,793	\$6,693	\$ —	\$ —	\$244,354
Transfers into Level III	22,537	1,978	—	—	—	24,515
Transfers out of Level III	(54,179)	(1,978)	—	—	—	(56,157)
Purchases	67,546	48,481	136	—	2,494	118,627
Sales	(83,772)	(28,072)	(713)	—	(2,005)	(114,562)
Realized gains (losses), net	(114)	486	87	—	5	464
Unrealized appreciation (depreciation), net	3,812	(554)	1,511	—	11	4,780
Ending balance	\$164,668	\$49,134	\$7,714	\$ —	\$505	\$222,021
Net change in unrealized appreciation (depreciation) attributable to assets still held at end of period	\$3,366	\$(441)	\$1,511	\$ —	\$11	\$4,447

Total realized and unrealized gains and losses recorded for Level III investments are included in net realized gain on consolidated funds' investments or net change in unrealized appreciation (depreciation) on consolidated funds' investments in the condensed consolidated statements of operations.

Transfers between Level I and Level II positions for the nine months ended September 30, 2018 included \$0.7 million from Level I to Level II due to a decline in trading activity for one credit-oriented security, which was valued using vendor prices. Transfers between Level I and Level II positions for the nine months ended September 30, 2017 included \$0.4 million from Level I to Level II due to a decline in trading activity for one credit-oriented security, which was valued using broker quotes.

Transfers out of Level III are generally attributable to certain investments that experienced a more significant level of market trading activity or completed an initial public offering during the respective period and thus were valued using observable inputs. Transfers into Level III typically reflect either investments that experienced a less significant level of market trading activity during the period or portfolio companies that undertook restructurings or bankruptcy proceedings and thus were valued in the absence of observable inputs.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

The following table sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the consolidated funds' Level III investments as of September 30, 2018:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs ⁽¹⁾⁽²⁾	Range	Weighted Average ⁽³⁾
Credit-oriented investments:					
Communication services:	\$ 14,490	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	634	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	7x – 9x	8x
Financials:	68,527	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	1,580	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 12%	11%
Health care:	31,186	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	11,461	Discounted cash flow ⁽⁴⁾	Discount rate	8% – 16%	13%
Information technology:	15,804	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	2,447	Discounted cash flow ⁽⁴⁾	Discount rate	11% – 13%	12%
Real estate:	76,773	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	2,663	Discounted cash flow ⁽⁴⁾	Discount rate	12% – 14%	13%
Other:	19,719	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	5,949	Discounted cash flow ⁽⁴⁾	Discount rate	11% – 14%	12%
	3,221	Recent transaction price ⁽⁸⁾	Not applicable	Not applicable	Not applicable
Equity investments:					
	52,025	Recent transaction price ⁽⁸⁾	Not applicable	Not applicable	Not applicable
	2,094	Discounted cash flow ⁽⁴⁾	Discount rate	10% – 30%	13%
	2,137	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	5x – 11x	7x
Total Level III investments	\$ 310,710				

The following table sets forth a summary of the valuation techniques and quantitative information utilized in determining the fair value of the consolidated funds' Level III investments as of December 31, 2017:

Investment Type	Fair Value	Valuation Technique	Significant Unobservable Inputs ⁽¹⁾⁽²⁾	Range	Weighted Average ⁽³⁾
-----------------	------------	---------------------	---	-------	---------------------------------

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Credit-oriented investments:

Financials:	\$53,732	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
Industrials:	14,563	Discounted cash flow ⁽⁴⁾	Discount rate	6% – 11%	7%
	3,782	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
Information technology:	5,331	Discounted cash flow ⁽⁴⁾	Discount rate	11% – 13%	12%
	13,965	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
Real estate:	2,897	Discounted cash flow ⁽⁴⁾	Discount rate	11% – 13%	12%
	22,297	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
	327	Recent transaction price ⁽⁸⁾	Not applicable	Not applicable	Not applicable
Other:	15,881	Discounted cash flow ⁽⁴⁾	Discount rate	8% – 20%	12%
	660	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	8x – 10x	9x
	29,452	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
Equity investments:	378	Market approach (comparable companies) ⁽⁶⁾	Earnings multiple ⁽⁷⁾	9x – 11x	10x
	1,343	Discounted cash flow ⁽⁴⁾	Discount rate	11% – 30%	13%
	1,707	Recent market information ⁽⁵⁾	Quoted prices	Not applicable	Not applicable
Real estate investments:					
Real estate:	121,087	Recent transaction price ⁽⁸⁾	Not applicable	Not applicable	Not applicable
Total Level III investments	\$287,402				

(1) The discount rate is the significant unobservable input used in the fair-value measurement of performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, as well as certain equity investments and real estate loan portfolios. An increase (decrease) in the discount rate would result in a lower (higher) fair-value measurement.

(2) Multiple of either earnings or underlying assets is the significant unobservable input used in the market approach for the fair-value measurement of distressed credit-oriented investments, credit-oriented investments in which the consolidated funds have a controlling interest in the underlying issuer, equity investments and certain real estate-oriented investments. An increase (decrease) in the multiple would result in a higher (lower) fair-value measurement.

(3) The weighted average is based on the fair value of the investments included in the range.

(4) A discounted cash-flow method is generally used to value performing credit-oriented investments in which the consolidated funds do not have a controlling interest in the underlying issuer, as well as certain equity investments, real estate-oriented investments and real estate loan portfolios.

(5) Certain investments are valued using vendor prices or broker quotes for the subject or similar securities.

Generally, investments valued in this manner are classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require

adjustment for investment-specific factors or restrictions.

- (6) A market approach is generally used to value distressed investments and investments in which the consolidated funds have a controlling interest in the underlying issuer.

Earnings multiples are based on comparable public companies and transactions with comparable companies. The Company typically utilizes multiples of EBITDA; however, in certain cases the Company may use other earnings

- (7) multiples believed to be most relevant to the investment. The Company typically applies the multiple to trailing twelve-months' EBITDA. However, in certain cases other earnings measures, such as pro forma EBITDA, may be utilized if deemed to be more relevant.

Certain investments are valued based on recent transactions, generally defined as investments purchased or sold

- (8) within six months of the valuation date. The fair value may also be based on a pending transaction expected to close after the valuation date.

A significant amount of judgment may be required when using unobservable inputs, including assessing the accuracy of source data and the results of pricing models. The Company assesses the accuracy and reliability of the sources it uses to develop unobservable inputs. These sources may include third-party vendors that the Company believes are reliable and commonly utilized by other marketplace participants. As described in note 2, other factors beyond the unobservable inputs described above may have a significant impact on investment valuations.

During the nine months ended September 30, 2018, the valuation technique for one Level III credit-oriented investment changed from a discounted cash flow to a market approach based on comparable companies due to the anticipated restructuring of the portfolio company. There were no changes in the valuation techniques for Level III securities for the nine months ended September 30, 2017.

8. DERIVATIVES AND HEDGING

The Company enters into derivatives as part of its overall risk management strategy or to facilitate its investment management activities. Risks associated with fluctuations in interest rates and foreign-currency exchange rates in the normal course of business are addressed as part of the Company's overall risk management strategy that may include the use of derivatives to economically hedge or reduce these exposures. From time to time, the Company may enter into (a) foreign-currency option and forward contracts to reduce earnings and cash-flow volatility associated with changes in foreign-currency exchange rates, and (b) interest-rate swaps to manage all or a portion of the interest-rate risk associated with its variable-rate borrowings. As a result of the use of these or other derivative contracts, the Company is exposed to the risk that counterparties will fail to fulfill their contractual obligations. The Company attempts to mitigate this counterparty risk by entering into derivative contracts only with major financial institutions that have investment-grade credit ratings. Counterparty credit risk is evaluated in determining the fair value of derivatives.

When the Company enters into a derivative contract, it may elect to designate the derivative as a hedging instrument and apply hedge accounting as part of its overall risk management strategy. In other situations, when a derivative does not qualify for hedge accounting or when the derivative and the hedged item are both recorded in current-period earnings and thus deemed to be economic hedges, hedge accounting is not applied. Freestanding derivatives are financial instruments that the Company enters into as part of its overall risk management strategy but does not utilize hedge accounting. These financial instruments may include foreign-currency exchange contracts, interest-rate swaps and other derivative contracts. There were no derivatives outstanding that were designated as hedging instruments for accounting purposes as of September 30, 2018 and December 31, 2017.

The fair value of freestanding derivatives consisted of the following:

	Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value
As of September 30, 2018				
Foreign-currency forward contracts	\$128,511	\$2,872	\$(55,373)	\$(1,045)
Cross-currency swap	—	—	(247,023)	(9,119)
Total	\$128,511	\$2,872	\$(302,396)	\$(10,164)

As of December 31, 2017

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Foreign-currency forward contracts	\$288,451	\$5,020	\$(242,972)	\$(13,154)
Cross-currency swap	—	—	(255,210)	(7,479)
Total	\$288,451	\$5,020	\$(498,182)	\$(20,633)

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Realized and unrealized gains and losses arising from freestanding derivatives were recorded in the condensed consolidated statements of operations as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
Investment income	\$419	\$(4,141)	\$(1,898)	\$(13,469)
General and administrative expense ⁽¹⁾	929	(3,111)	(374)	(12,062)
Total	\$1,348	\$(7,252)	\$(2,272)	\$(25,531)

To the extent that the Company's freestanding derivatives are utilized to hedge its foreign-currency exposure to investment income and management fees earned from consolidated funds, the related hedged items are eliminated in consolidation, with the derivative impact (a positive number reflects a reduction in expenses) reflected in consolidated general and administrative expense.

Derivatives Held By Consolidated Funds

Certain consolidated funds utilize derivatives in their ongoing investment operations. These derivatives primarily consist of foreign-currency forward contracts and options utilized to manage currency risk, interest-rate swaps to hedge interest-rate risk, options and futures used to hedge certain exposures for specific securities, and total-return swaps utilized mainly to obtain exposure to leveraged loans or to participate in foreign markets not readily accessible. The primary risk exposure for options and futures is price, while the primary risk exposure for total-return swaps is credit. None of the derivative instruments are accounted for as a hedging instrument utilizing hedge accounting. The following tables summarize net gains (losses) from derivatives held by the consolidated funds:

	Three Months Ended September 30, 2018		2017	
	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments	Net Realized Gain (Loss) on Investments	Net Change in Unrealized Appreciation (Depreciation) on Investments
Foreign-currency forward contracts	1,496	1,193	(555)	200
Total-return and interest-rate swaps	—	—	70	(185)
Options and futures	185	(152)	38	40
Total	\$1,681	\$ 1,041	\$(447)	\$ 55

	Nine Months Ended September 30, 2018		2017	
	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

	on	on Investments	on	on Investments
	Investments		Investments	
Foreign-currency forward contracts	428	17	(945)	(210)
Total-return and interest-rate swaps	858	29	(1,398)	813
Options and futures	232	(265)	(1,977)	306
Total	\$1,518	\$ (219)	\$(4,320)	\$ 909

30

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Balance Sheet Offsetting

The Company recognizes all derivatives as assets or liabilities at fair value in its condensed consolidated statements of financial condition. In connection with its derivative activities, the Company generally enters into agreements subject to enforceable master netting arrangements that allow the Company to offset derivative assets and liabilities in the same currency by specific derivative type or, in the event of default by the counterparty, to offset derivative assets and liabilities with the same counterparty. While these derivatives are eligible to be offset in accordance with applicable accounting guidance, the Company has elected to present derivative assets and liabilities based on gross fair value in its condensed consolidated statements of financial condition. The table below sets forth the setoff rights and related arrangements associated with derivatives held by the Company. The “gross amounts not offset in statements of financial condition” columns represent derivatives that management has elected not to offset in the consolidated statements of financial condition even though they are eligible to be offset in accordance with applicable accounting guidance.

	Gross and Net Amounts of Assets (Liabilities) Presented	Gross Amounts Not Offset in Statements of Financial Condition	Cash Collateral Received (Pledged)	Net Amount
As of September 30, 2018				
Derivative Assets:				
Foreign-currency forward contracts	\$ 2,872	\$ 1,045	\$ —	\$ 1,827
Derivative assets of consolidated funds:				
Foreign-currency forward contracts	1,700	1	—	1,699
Total	\$ 4,572	\$ 1,046	\$ —	\$ 3,526
Derivative Liabilities:				
Foreign-currency forward contracts	\$ (1,045)	\$ (1,045)	\$ —	\$ —
Cross-currency swap	(9,119)	—	—	(9,119)
Subtotal	(10,164)	(1,045)	—	(9,119)
Derivative liabilities of consolidated funds:				
Foreign-currency forward contracts	(442)	(1)	(259)	(182)
Options and futures	(148)	—	—	(148)
Subtotal	(590)	(1)	(259)	(330)
Total	\$ (10,754)	\$ (1,046)	\$ (259)	\$ (9,449)

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

	Gross and Net Amounts of Assets (Liabilities) Presented	Gross Amounts Not Offset in Statements of Financial Condition Derivative Assets (Liabilities)	Cash Collateral Received (Pledged)	Net Amount
As of December 31, 2017				
Derivative Assets:				
Foreign-currency forward contracts	\$ 5,020	\$5,020	\$ —	\$—
Derivative assets of consolidated funds:				
Foreign-currency forward contracts	590	115	—	475
Total-return and interest-rate swaps	49	49	—	—
Options and futures	92	—	—	92
Subtotal	731	164	—	567
Total	\$ 5,751	\$5,184	\$ —	\$567
Derivative Liabilities:				
Foreign-currency forward contracts	\$ (13,154)	\$(5,020)	\$ —	\$(8,134)
Cross-currency swap	(7,479)	—	—	(7,479)
Subtotal	(20,633)	(5,020)	—	(15,613)
Derivative liabilities of consolidated funds:				
Foreign-currency forward contracts	(817)	(115)	—	(702)
Total-return and interest-rate swaps	(136)	(49)	(87)	—
Subtotal	(953)	(164)	(87)	(702)
Total	\$ (21,586)	\$(5,184)	\$ (87)	\$(16,315)

9. FIXED ASSETS

Fixed assets, which consist of furniture and equipment, capitalized software, office leasehold improvements, and company-owned aircraft, are included in other assets in the condensed consolidated statements of financial position. The following table sets forth the Company's fixed assets and accumulated depreciation:

	As of September 30, 2018	December 31, 2017
Furniture, equipment and capitalized software	\$26,120	\$25,618
Leasehold improvements	68,785	66,940
Corporate aircraft	66,120	66,120
Other	4,905	5,229
Fixed assets	165,930	163,907
Accumulated depreciation	(59,935)	(53,744)
Fixed assets, net	\$105,995	\$110,163

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

10. GOODWILL AND INTANGIBLES

Goodwill represents the excess of cost over the fair value of identifiable net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead is tested for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or circumstances indicate that impairment may have occurred. As of September 30, 2018, the Company had determined there was no goodwill impairment. The carrying value of goodwill was \$69.3 million as of September 30, 2018 and December 31, 2017.

The following table summarizes the carrying value of intangible assets:

	As of	
	September 30, 2018	December 31, 2017
Contractual rights	\$ 347,452	\$ 347,452
Accumulated amortization (28,929)	(16,301)	(16,301)
Intangible assets, net	\$ 318,523	\$ 331,151

Amortization expense associated with the Company's intangible assets was \$4.2 million and \$12.6 million for the three and nine months ended September 30, 2018, respectively, and \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2017, respectively. Amortization expense is estimated to be \$4.2 million for the remaining three months of 2018, \$16.8 million per annum for each of the years ending December 31, 2019 and 2020, \$15.1 million for 2021, and \$12.8 million for 2022.

Goodwill and intangible assets are included in other assets in the condensed consolidated statements of financial position.

11. DEBT OBLIGATIONS AND CREDIT FACILITIES

The Company's debt obligations are set forth below:

	As of	
	September 30, 2018	December 31, 2017
\$250,000, 3.78%, issued in December 2017, payable on December 18, 2032	\$ 250,000	\$ 250,000
\$250,000, variable-rate term loan, issued in March 2014, payable on March 29, 2023 ⁽¹⁾	150,000	150,000
\$50,000, 3.91%, issued in September 2014, payable on September 3, 2024	50,000	50,000
\$100,000, 4.01%, issued in September 2014, payable on September 3, 2026	100,000	100,000
\$100,000, 4.21%, issued in September 2014, payable on September 3, 2029	100,000	100,000
\$100,000, 3.69%, issued in July 2016, payable on July 12, 2031	100,000	100,000
Total remaining principal	750,000	750,000
Less: Debt issuance costs	(4,188)	(3,726)
Debt obligations	\$ 745,812	\$ 746,274

On March 29, 2018, the credit facility was amended to among other things, extend the maturity date from March 31, 2021 to March 29, 2023, favorably update the commitment fee in the corporate ratings-based pricing grid and increase the permitted combined leverage ratio to a ratio of 3:50 to 1:00. The credit facility consists of a \$150 million term loan and a \$500 million revolving credit facility. Borrowings generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the revolving credit facility is 0.10% per annum. The credit agreement contains customary financial covenants and restrictions, including ones regarding a maximum

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

leverage ratio and a minimum required level of assets under management (as defined in the credit agreement, as amended above). As of September 30, 2018, the Company had no outstanding borrowings under the revolving credit facility.

As of September 30, 2018, future scheduled principal payments of debt obligations were as follows:

Last three months of 2018 \$—

2019	—
2020	—
2021	—
2022	—
Thereafter	750,000
Total	\$750,000

The Company was in compliance with all financial maintenance covenants associated with its senior notes and bank credit facility as of September 30, 2018 and December 31, 2017.

The fair value of the Company's debt obligations, which are carried at amortized cost, is a Level III valuation that is estimated based on a discounted cash-flow calculation using estimated rates that would be offered to Oaktree for debt of similar terms and maturities. The fair value of these debt obligations, gross of debt issuance costs, was \$734.1 million and \$762.7 million as of September 30, 2018 and December 31, 2017, respectively, utilizing an average borrowing rate of 4.2% and 3.6%, respectively. As of September 30, 2018, a 10% increase in the assumed average borrowing rate would lower the estimated fair value to \$709.8 million, whereas a 10% decrease would increase the estimated fair value to \$759.4 million.

In July 2017, the Company agreed to guarantee a \$17.5 million standby letter of credit extended to one of the investment funds that it manages, which expired in January 2018.

Credit Facilities of the Consolidated Funds

Certain consolidated funds may maintain revolving credit facilities that are secured by the assets of the fund or may issue senior variable rate notes to fund investments on a longer term basis, generally up to ten years. The obligations of the consolidated funds are nonrecourse to the Company.

The consolidated funds had the following debt obligations outstanding:

Credit Agreement	Outstanding Amount as of		Facility Capacity	Weighted Average Interest Rate	Weighted Average Remaining Maturity (years)	Commitment Fee Rate	L/C Fee
	September 30, 2018	December 31, 2017					
Senior variable rate notes	\$870,098	\$870,098	\$870,100	3.69%	10.0	N/A	N/A
Less: Debt issuance costs	(6,101)	(7,697)					
Total debt obligations, net	\$863,997	\$862,401					

As of both September 30, 2018 and December 31, 2017, the consolidated funds had debt obligations with an aggregate outstanding principal balance of \$870.1 million. The fair value of the senior variable rate notes is a Level III valuation and aggregated \$871.9 million and \$872.1 million as of September 30, 2018 and December 31, 2017, respectively, using prices obtained from pricing vendors. Financial instruments that are valued using quoted prices for the security or similar securities are generally classified as Level III because the quoted prices may be indicative in nature for securities that are in an inactive market, may be for similar securities, or may require adjustment for investment-specific factors or restrictions.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Debt Obligations of CLOs

Debt obligations of CLOs represent amounts due to holders of debt securities issued by the CLOs, as well as term loans of CLOs that had not priced as of period end.

Outstanding debt obligations of CLOs were as follows:

	As of September 30, 2018			As of December 31, 2017		
	Fair Value (1)	Weighted Average Interest Rate	Weighted Average Remaining Maturity (years)	Fair Value (1)	Weighted Average Interest Rate	Weighted Average Remaining Maturity (years)
Senior secured notes	\$3,521,664	2.50%	10.2	\$3,107,955	2.18%	10.7
Subordinated notes (2)	126,553	N/A	10.5	111,637	N/A	10.8
Total CLO debt obligations	\$3,648,217			\$3,219,592		

The fair value of CLO liabilities was measured as the fair value of CLO assets less the sum of (a) the fair value of (1) any beneficial interests held by the Company and (b) the carrying value of any beneficial interests that represent compensation for services. Please see notes 2 and 7 for more information.

(2) The subordinated notes do not have a contractual interest rate; instead, they receive distributions from the excess cash flows generated by the CLO.

The debt obligations of CLOs are nonrecourse to the Company and are backed by the investments held by the respective CLO. Assets of one CLO may not be used to satisfy the liabilities of another. As of September 30, 2018 and December 31, 2017, the fair value of CLO assets was \$4.1 billion and \$3.9 billion, respectively, and consisted of cash, corporate loans, corporate bonds and other securities.

As of September 30, 2018, future scheduled principal or par value payments with respect to the debt obligations of CLOs were as follows:

Last three months of 2018	\$103,782
2019	—
2020	—
2021	—
2022	—
Thereafter	3,517,041
Total	\$3,620,823

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

12. NON-CONTROLLING REDEEMABLE INTERESTS IN CONSOLIDATED FUNDS

The following table sets forth a summary of changes in the non-controlling redeemable interests in the consolidated funds. Dividends reinvested and in-kind contributions or distributions are non-cash in nature and have been presented on a gross basis in the table below.

	Nine Months Ended	
	September 30,	
	2018	2017
Beginning balance	\$860,548	\$344,047
Initial consolidation of a fund	—	70,817
Contributions	107,962	210,964
Distributions	(214,096)	(39,397)
Net income	18,399	21,795
Change in distributions payable	(75,196)	1,128
Foreign currency translation and other	(1,310)	—
Ending balance	\$696,307	\$609,354

13. UNITHOLDERS' CAPITAL

Unitholders' capital reflects the economic interests attributable to Class A unitholders, preferred unitholders, non-controlling interests in consolidated subsidiaries and non-controlling interests in consolidated funds.

Non-controlling interests in consolidated subsidiaries represent the portion of unitholders' capital attributable to the OCGH non-controlling interest and third parties. The OCGH non-controlling interest is determined at the Oaktree Operating Group level, after giving effect to distributions, if any, attributable to the preferred unitholders, based on the proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Certain expenses, such as income taxes and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders. As of September 30, 2018 and December 31, 2017, respectively, OCGH units represented 85,625,657 of the total 157,136,400 Oaktree Operating Group units and 90,975,687 of the total 156,285,913 Oaktree Operating Group units. Based on total allocable Oaktree Operating Group capital of \$1,927,088 and \$1,912,517 as of September 30, 2018 and December 31, 2017, respectively, the OCGH non-controlling interest was \$1,050,105 and \$1,113,314. As of September 30, 2018 and December 31, 2017, non-controlling interests attributable to third parties was \$6,209 and \$7,923, respectively.

Class A Unit Issuance

On February 12, 2018, the Company issued and sold 5,000,000 Class A units in a public offering, resulting in \$219.5 million in net proceeds to the Company. The Company did not retain any proceeds from the sale of Class A units in this offering. The proceeds were used to acquire interests in the Company's business from certain of the Company's directors, employees and other investors, including certain senior executives and other members of the Company's senior management.

Preferred Unit Issuances

On May 17, 2018, the Company issued 7,200,000 of its 6.625% Series A preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$173.7 million in net proceeds to the Company. Distributions on the Series A preferred units, when and if declared by the board of directors of Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year. The first distribution was paid on September 17, 2018. Distributions on the Series A preferred units are non-cumulative.

On August 9, 2018, the Company issued 9,400,000 of its 6.550% Series B preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$226.9 million in net

proceeds to the Company. Distributions on the Series B preferred units, when and if declared by the

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

board of directors of Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on December 17, 2018. Distributions on the Series B preferred units are non-cumulative.

Unless distributions have been declared and paid or declared and set apart for payment on the preferred units for a quarterly distribution period, during the remainder of that distribution period the Company may not repurchase any common units or any other units that are junior in rank, as to the payment of distributions, to the preferred units and the Company may not declare or pay or set apart payment for distributions on any common units or junior units for the remainder of that distribution period, other than certain Permitted Distributions (as defined in the unit designation related to the applicable preferred units (each, the “Preferred Unit Designation”)). These restrictions are not applicable during the initial distribution period, which is the period from the original issue date to, but excluding, September 15, 2018 and December 15, 2018 in regards to the Series A and Series B preferred units, respectively.

The Company may redeem, at its option, out of funds legally available, the preferred units, in whole or in part, at any time on or after June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, at a price of \$25.00 per preferred unit plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. Holders of the preferred units have no right to require the redemption of the preferred units.

If a Change of Control Event (as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, the Company may, at its option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days’ notice, within 60 days of the occurrence of such Change of Control Event, at a price of \$25.25 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

If a Tax Redemption Event or Rating Agency Event (each, as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, the Company may, at its option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days’ notice, within 60 days of the occurrence of such Tax Redemption Event or Rating Agency Event, at a price of \$25.50 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

The preferred units are not convertible into Class A units or any other class or series of the Company’s interests or any other security. Holders of the preferred units do not have any of the voting rights given to holders of our Class A units, except that holders of the preferred units are entitled to certain voting rights under certain conditions.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

The following table sets forth a summary of net income attributable to the preferred unitholders, the OCGH unitholders' non-controlling interest and the Class A common unitholders:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
Weighted average Oaktree Operating Group units outstanding (in thousands):				
OCGH non-controlling interest	85,775	91,864	86,675	91,750
Class A unitholders	71,369	64,394	70,167	63,875
Total weighted average units outstanding	157,144	156,258	156,842	155,625
Oaktree Operating Group net income:				
Net income attributable to preferred unitholders ⁽¹⁾	\$3,909	\$—	\$3,909	\$—
Net income attributable to OCGH non-controlling interest	71,408	77,822	185,959	348,058
Net income attributable to OCG Class A unitholders	59,417	54,552	149,956	242,479
Oaktree Operating Group net income ⁽²⁾	\$134,734	\$132,374	\$339,824	\$590,537
Net income attributable to Oaktree Capital Group, LLC Class A unitholders:				
Oaktree Operating Group net income attributable to OCG Class A unitholders	\$59,417	\$54,552	\$149,956	\$242,479
Non-Operating Group income (expense)	(321)	(62)	(629)	(549)
Income tax expense of Intermediate Holding Companies	(6,346)	(8,649)	(12,724)	(23,850)
Net income attributable to Oaktree Capital Group, LLC Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080

(1) Represents distributions declared, if any, on the preferred units.

Oaktree Operating Group net income does not include amounts attributable to other non-controlling interests, (2) which amounted to \$597 and \$1,986 for the three and nine months ended September 30, 2018, respectively, and \$724 and \$1,970 for the three and nine months ended September 30, 2017, respectively.

The change in the Company's ownership interest in the Oaktree Operating Group is set forth below:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
Net income attributable to Oaktree Capital Group, LLC Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080
Equity reallocation between controlling and non-controlling interests	4,514	5,082	78,269	14,581
Change from net income attributable to Oaktree Capital Group, LLC Class A unitholders and transfers from non-controlling interests	\$57,264	\$50,923	\$214,872	\$232,661

Please see notes 14, 15 and 16 for additional information regarding transactions that impacted unitholders' capital.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

14. EARNINGS PER UNIT

The computation of net income per Class A unit is set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per unit amounts)			
Net income per Class A unit (basic and diluted):				
Net income attributable to OCG Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080
Weighted average number of Class A units outstanding (basic and diluted)	71,369	64,394	70,167	63,875
Basic and diluted net income per Class A unit	\$0.74	\$0.71	\$1.95	\$3.41

OCGH units may be exchanged on a one-for-one basis into Class A units, subject to certain restrictions. As of September 30, 2018, there were 85,625,657 OCGH units outstanding, which are vested or will vest through February 15, 2028, that ultimately may be exchanged into 85,625,657 Class A units. The exchange of these units would proportionally increase the Company's interest in the Oaktree Operating Group. However, as the restrictions set forth in the exchange agreement were in place at the end of each respective reporting period, those units were not included in the computation of diluted earnings per unit for the three and nine months ended September 30, 2018 and 2017. A deferred equity unit represents a special unit award that, when vested, will be settled with an unvested OCGH unit on a one-for-one basis. The number of deferred equity units that will vest is based on the achievement of certain performance targets through June 2021. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over 4.0 years. The holder of a deferred equity unit is not entitled to any distributions until the issuance of an OCGH unit in settlement of a deferred equity unit. As of September 30, 2018, no OCGH units were considered issuable under the terms of the arrangement; consequently, no contingently issuable units were included in the computation of diluted earnings per unit for the three and nine months ended September 30, 2018. Please see note 15 for more information.

Certain compensation arrangements include performance-based awards that could result in the issuance of up to 340,000 OCGH units in total, which would vest over periods of four to ten years from date of issuance. As of September 30, 2018, no OCGH units were considered issuable under the terms of these arrangements; consequently, no contingently issuable units were included in the computation of diluted earnings per unit for the three and nine months ended September 30, 2018.

The Company had a contingent consideration liability that was payable in cash and fully-vested OCGH units. In May 2018, the contingent consideration arrangement was modified in respect of certain performance targets and payment terms. The new arrangement provides for contingent consideration payable in cash and Class A units. No Class A units or OCGH units were considered issuable under the terms of the arrangement for the three and nine months ended September 30, 2018 and 2017; consequently no contingently issuable units were included in the computation of diluted earnings per unit for for such periods. Please see note 17 for more information.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

15. EQUITY-BASED COMPENSATION

Class A and OCGH Unit Awards

During the nine months ended September 30, 2018, the Company granted 1,164,601 Class A units and 124,051 restricted OCGH units to its employees and directors, subject to annual vesting over a weighted average period of approximately 4.4 years. The grant date fair value of OCGH units awarded during the nine months ended September 30, 2018 was determined by applying a 20% discount to the Class A unit trading price on the New York Stock Exchange as of the grant date. With respect to forfeitures, the Company has made an accounting policy election to account for forfeitures when they occur. Accordingly, no forfeitures have been assumed in the calculation of compensation expense.

As of September 30, 2018, the Company expected to recognize compensation expense on its unvested Class A and OCGH unit awards of \$148.5 million over a weighted average period of 3.7 years.

A summary of the status of the Company's unvested Class A and OCGH unit awards and changes for the period presented are set forth below (actual dollars per unit):

	Class A Units		OCGH Units ⁽¹⁾	
	Number of Units	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2017	2,556,316	\$ 44.05	2,158,835	\$ 39.79
Granted	1,164,601	39.61	124,051	31.80
Vested	(913,479)	42.57	(337,976)	37.24
Forfeited	(97,053)	40.53	—	—
Balance, September 30, 2018	2,710,385	\$ 42.76	1,944,910	\$ 39.72

Excludes certain performance-based awards that could result in the issuance of up to 340,000 OCGH units, which would vest over periods of four to ten years from date of issuance. Though no units have been issued to date under (1) these arrangements, as of September 30, 2018 the Company expected to recognize compensation expense on 228,500 unvested OCGH performance awards of \$6.8 million over a weighted average period of 4.6 years under applicable accounting rules.

Equity Value Units

OCGH equity value units ("EVUs") represent special limited partnership units in OCGH that entitle the holder the right to receive special distributions that will be settled in OCGH units, based on value created during a specified period in excess of a fixed "Base Value." The value created will be measured on a per unit basis, based on the appreciation of the Class A units and certain components of quarterly distributions with respect to OCGH units over the period beginning on January 1, 2015 and ending on each of December 31, 2019, December 31, 2020 and December 31, 2021, with one-third of the EVUs recapitalizing on each such date. EVUs also give the holder the right, subject to service vesting and Oaktree performance relative to the accreting Base Value, to receive certain quarterly distributions from OCGH. EVUs do not entitle the holder to any voting rights.

The value received under the EVUs will be reduced by (i) distributions received by the holder on 225,000 OCGH units granted to the holder on April 26, 2017, (ii) the value of the portion of profit sharing payments received by the holder attributable to the net incentive income received from certain funds, and (iii) the full value of the OCGH units granted to the holder on April 26, 2017. To the extent that the reduction relates to the value of any such OCGH units that are unvested at the time of the reduction, such OCGH units will vest at that time.

Certain EVUs provide the holder with liquidity rights in respect of the special distributions, if any, that will be settled in OCGH units. The Company accounts for EVUs with liquidity rights as liability-classified awards. As of September 30, 2018, there were 1,000,000 equity-classified EVUs and 1,000,000 liability-classified EVUs

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

outstanding. As of September 30, 2018, the Company expected to recognize \$1.8 million of compensation expense on its unvested EVUs over the next 1.3 years. Equity-classified EVUs that require future service are expensed on a straight-line basis over the requisite service period. Liability-classified EVUs are remeasured at the end of each quarter.

The fair value of EVUs was determined using a Monte Carlo simulation model. The fair value is affected by the Class A unit trading price and assumptions regarding certain complex and subjective variables, including the expected Class A unit trading price volatility, distributions and exercise timing, and the risk-free interest rate.

Deferred Equity Units

A deferred equity unit represents a special unit award that, when vested, will be settled with an unvested OCGH unit on a one-for-one basis. The number of deferred equity units that will vest is based on the achievement of certain performance targets through June 2021. Once a performance target has been met, the applicable number of OCGH units will be issued and begin to vest over 4.0 years. The holder of a deferred equity unit is not entitled to any distributions until settled by the issuance of an OCGH unit. As of September 30, 2018, there were 250,000 deferred equity units outstanding, all of which were granted in the second quarter of 2017. As of September 30, 2018, none of the deferred equity units were expected to vest.

The fair value of the deferred equity units was determined at the grant date based on the then-prevailing Class A unit trading price and reflected a 20% lack-of-marketability discount for the OCGH units that will be issued upon vesting.

16. INCOME TAXES AND RELATED PAYMENTS

Oaktree is a publicly traded partnership and Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., two of its Intermediate Holding Companies, are wholly-owned corporate subsidiaries. Income earned by these corporate subsidiaries is subject to U.S. federal and state income taxation and taxed at prevailing rates. Income earned by non-corporate subsidiaries is not subject to U.S. federal corporate income tax and is allocated to the Oaktree Operating Group's unitholders. The Company's effective tax rate is dependent on many factors, including the estimated nature of many amounts and the mix of revenues and expenses between the subsidiaries that are or are not subject to income tax; consequently, from period to period the effective tax rate is subject to significant variation. The Company's effective tax rate used for interim periods is based on the estimated full-year income tax rate. Certain future items that cannot be reliably estimated, such as incentive income, are excluded from the estimated annual effective tax rate. The tax expense or benefit stemming from these items is recognized in the same period as the underlying income or expense.

Tax authorities currently are examining certain income tax returns of Oaktree, with certain of these examinations at an advanced stage. Over the next four quarters ending September 30, 2019, the Company believes that it is reasonably possible that one outcome of these examinations and expiring statutes of limitation on other items may be the release of up to approximately \$2.2 million of previously accrued Operating Group income taxes. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax examinations and that any settlements related thereto will not have a material adverse effect on the Company's consolidated financial statements; however, there can be no assurances as to the ultimate outcomes.

Tax Legislation

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act reduced the corporate income tax rate from 35% to 21%, and included significant changes to other domestic and international corporate income tax provisions. The rate change resulted in a net reduction to net income attributable to Oaktree Capital Group, LLC of \$33.2 million in the fourth quarter of 2017. The SEC Staff issued Staff Accounting Bulletin No. 118 in December 2017, which allows a financial statement issuer that does not have all necessary information to fully account for the income tax effect of the Tax Act to record a provisional amount in its financial statements that may be subject to adjustment during a subsequent measurement period. As of September 30, 2018, no adjustments have been made to the above provisional amounts. The Company will continue to evaluate the impact of the Tax Act with

respect to certain international provisions as well as provisions that have been identified as

41

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

requiring additional technical guidance. The Company expects to complete its evaluation of the provisional amounts with the 2018 year-end financial statements as technical guidance is released.

Exchange Agreement and Tax Receivable Agreement

Subject to certain restrictions and the approval of the Company's board of directors, each holder of OCGH units has the right to exchange his or her vested units for, at the option of the Company's board of directors, Class A units, an equivalent amount of cash based on then-prevailing market prices and/or other consideration of equal value. Certain of the Oaktree Operating Group entities made an election under Section 754 of the U.S. Internal Revenue Code, as amended, which may result in an adjustment to the tax basis of the assets owned by the Oaktree Operating Group at the time of an exchange. These exchanges may result in increases in tax deductions and tax basis that would reduce the amount of tax that Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. would otherwise be required to pay in the future.

Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. have entered into a tax receivable agreement with OCGH unitholders that, as amended, provides for the payment to an exchanging or selling OCGH unitholder of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that they actually realize (or are deemed to realize in the case of an early termination payment by Oaktree Holdings, Inc. or Oaktree AIF Holdings, Inc., or a change of control) as a result of an increase in the tax basis of the assets owned by the Oaktree Operating Group. When an exchange of OCGH units results in an increase to the tax basis of the assets owned by the Oaktree Operating Group, a deferred tax asset and an associated liability for payments to OCGH unitholders under the tax receivable agreement are recorded, subject to realizability considerations. The establishment of a deferred tax asset increases additional paid-in capital because the transactions are between Oaktree and its unitholders.

Assuming no further material changes in the relevant tax law and that the Company earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected estimated future payments to OCGH unitholders under the tax receivable agreement, as of September 30, 2018, are set forth below:

Transaction	Total	
	Future	Payments Through Fiscal Year
	Payments	
2007 Private Offering	\$ 13,327	2029
Initial public offering	32,511	2034
May 2013 Offering	45,785	2035
March 2014 Offering	34,732	2036
March 2015 Offering	29,558	2037
February 2018 Offering	34,288	2040
Total	\$ 190,201	

Future estimated payments to OCGH unitholders under the tax receivable agreement are subject to increase in the event of additional exchanges of OCGH units. For the nine months ended September 30, 2018, \$20.7 million was paid under the tax receivable agreement.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Oaktree enters into contracts that contain certain representations, warranties and indemnifications. The Company's exposure under these arrangements would involve future claims that have not yet been asserted. Inasmuch as no such claims currently exist or are expected to arise, the Company has not accrued any liability in connection with these indemnifications.

Legal Actions

Oaktree, its affiliates, investment professionals, and portfolio companies are routinely involved in litigation and other legal actions in the ordinary course of their business and investing activities. In addition, Oaktree is subject to the authority of a number of U.S. and non-U.S. regulators, including the SEC and the Financial Industry Regulatory Authority, and those authorities periodically conduct examinations of Oaktree and make other inquiries that may result in the commencement of regulatory proceedings against Oaktree and its personnel. Oaktree is currently not subject to any pending actions or regulatory proceedings that either individually or in the aggregate are expected to have a material impact on its consolidated financial statements.

Incentive Income

In addition to the incentive income recognized by the Company, certain of its funds have amounts recorded as potentially allocable to the Company as its share of potential future incentive income, based on each fund's net asset value. Inasmuch as this incentive income is contingent upon future investment activity and other factors, it is not recognized by the Company as revenue until it is probable that a significant reversal will not occur. As of September 30, 2018 and December 31, 2017, respectively, the aggregate of such amounts recorded at the fund level in excess of incentive income recognized by the Company was \$1,923,544 and \$1,918,952, for which related direct incentive income compensation expense was estimated to be \$1,010,268 and \$1,000,232.

Contingent Liabilities

The Company had a contingent consideration obligation of up to \$60.0 million related to the Highstar acquisition that was payable in cash and fully-vested OCGH units. The amount of contingent consideration was based on the achievement of certain performance targets over a period of up to seven years from the acquisition date of August 2014. In May 2018, the contingent consideration arrangement was modified in respect of certain performance targets and payment terms. The new arrangement provides for contingent consideration of up to \$36.1 million, payable in cash and Class A units. The modification resulted in a \$7.1 million reduction in the contingent consideration liability. As of September 30, 2018 and December 31, 2017, respectively, the fair value of the contingent liability was \$6.6 million and \$18.8 million. Changes in this liability resulted in income of \$2.5 million and \$12.2 million for the three and nine months ended September 30, 2018, respectively, and income of \$4.9 million and \$4.5 million for the three and nine months ended September 30, 2017, respectively. The fair value of the contingent consideration liability is a Level III valuation, which uses a discounted cash-flow analysis based on a probability-weighted average estimate of certain performance targets, including fundraising and revenue levels. The assumptions used in the analysis are inherently subjective, and thus the ultimate amount of the contingent consideration liability may differ materially from the most recent estimate. The contingent consideration liability is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Changes in the liability are recorded in general and administrative expense in the condensed consolidated statements of operations.

In connection with the October 2017 BDC acquisition, FSM pledged assets with an estimated fair value of \$56.2 million to indemnify the Company or the BDCs against any claims or assessments arising from the period during which it managed the BDCs. Please see note 3 for more information.

Commitments to Funds

As of September 30, 2018 and December 31, 2017, the Company, generally in its capacity as general partner, had undrawn capital commitments of \$455.0 million and \$429.1 million, respectively, including commitments to both unconsolidated and consolidated funds.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Investment Commitments of the Consolidated Funds

Certain of the consolidated funds are parties to credit arrangements that provide for the issuance of letters of credit and/or revolving loans, which may require the particular fund to extend loans to investee companies. The consolidated funds use the same investment criteria in making these commitments as they do for investments that are included in the condensed consolidated statements of financial condition. The unfunded liability associated with these credit arrangements is equal to the amount by which the contractual loan commitment exceeds the sum of funded debt and cash held in escrow, if any. As of September 30, 2018 and December 31, 2017, the consolidated funds had potential aggregate commitments of \$11.4 million and \$6.0 million, respectively. These commitments are expected to be funded by the funds' cash balances, proceeds from asset sales or drawdowns against existing capital commitments. A consolidated fund may agree to guarantee the repayment obligations of certain investee companies. As of September 30, 2018 and December 31, 2017, there were no guaranteed amounts under such arrangements. Certain consolidated funds are investment companies that are required to disclose financial support provided or contractually required to be provided to any of their portfolio companies. During the nine months ended September 30, 2018, the consolidated funds did not provide any financial support to portfolio companies.

18. RELATED-PARTY TRANSACTIONS

The Company considers its senior executives, employees and unconsolidated Oaktree funds to be affiliates (as defined in the FASB ASC Master Glossary). Amounts due from and to affiliates are set forth below. The fair value of amounts due from and to affiliates is a Level III valuation and was valued based on a discounted cash-flow analysis. The carrying value of amounts due from affiliates approximated fair value due to their short-term nature or because their average interest rate, which ranged from 2.0% to 3.0%, approximated the Company's cost of debt. The fair value of amounts due to affiliates approximated \$96,469 and \$93,772 as of September 30, 2018 and December 31, 2017, respectively, based on a discount rate of 10.0%.

	As of September 30, 2018	December 31, 2017
Due from affiliates:		
Loans	\$3,344	\$9,239
Amounts due from unconsolidated funds	67,036	57,155
Management fees and incentive income due from unconsolidated funds	76,052	152,959
Payments made on behalf of unconsolidated entities	3,467	3,784
Non-interest bearing advances made to certain non-controlling interest holders and employees	—	87
Total due from affiliates	\$149,899	\$223,224
Due to affiliates:		
Due to OCGH unitholders in connection with the tax receivable agreement (please see note 16)	\$190,201	\$176,283
Amounts due to senior executives, certain non-controlling interest holders and employees	2,066	1,590
Total due to affiliates	\$192,267	\$177,873
Loans		

Loans primarily consist of interest-bearing loans made to certain non-controlling interest holders, primarily certain employees, to meet tax obligations related to vesting of equity awards. The loans, which are generally recourse to the borrower or secured by vested equity and other collateral, typically bear interest at the Company's cost of debt and generated interest income of \$22 and \$193 for the three and nine months ended September 30, 2018, respectively, and \$94 and \$369 for the three and nine months ended September 30, 2017, respectively.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

Due From Oaktree Funds and Portfolio Companies

In the normal course of business, the Company advances certain expenses on behalf of Oaktree funds. Amounts advanced on behalf of consolidated funds are eliminated in consolidation. Certain expenses paid by the Company, which typically are employee travel and other costs associated with particular portfolio company holdings, are reimbursed to the Company by the portfolio companies.

Revenues Earned From Oaktree Funds

Management fees and incentive income earned from unconsolidated Oaktree funds totaled \$218.0 million and \$719.6 million for the three and nine months ended September 30, 2018, respectively, and \$206.0 million and \$1,070.9 million for the three and nine months ended September 30, 2017, respectively.

Other Investment Transactions

The Company's senior executives, directors and senior professionals are permitted to invest their own capital (or the capital of family trusts or other estate planning vehicles they control) in Oaktree funds, for which they pay the particular fund's full management fee but not its incentive allocation. To facilitate the funding of capital calls by funds in which employees are invested, the Company periodically advances on a short-term basis the capital calls on certain employees' behalf. These advances are reimbursed generally toward the end of the calendar quarter in which the capital calls occurred. Amounts advanced by the Company are included within "non-interest bearing advances made to certain non-controlling interest holders and employees" in the above table.

Aircraft Services

The Company owns an aircraft for business purposes. Howard Marks, the Company's co-chairman, may use this aircraft for personal travel and will reimburse the Company to the extent his use of the aircraft for personal travel exceeds a certain threshold pursuant to a Company policy adopted as of January 1, 2017. The Company also provides certain senior executives a personal travel allowance for private aircraft usage up to a certain threshold pursuant to the same Company policy. Additionally, the Company occasionally makes use of an aircraft owned by one of its senior executives for business purposes at a price to the Company that is based on market rates.

Special Allocations

Certain senior executives receive special allocations based on a percentage of profits of the Oaktree Operating Group. These special allocations, which are recorded as compensation expense, are made on a current basis for so long as they remain senior executives of the Company, with limited exceptions.

19. SEGMENT REPORTING

As a global investment manager, the Company provides investment management services through funds and separate accounts. The Company earns revenues from the management fees and incentive income generated by the funds that it manages. Management uses a consolidated approach to assess performance and allocate resources. As such, the Company's business is comprised of one segment, the investment management business. The Company conducts its investment management business primarily in the United States, where substantially all of its revenues are generated.

Oaktree Capital Group, LLC

Notes to Condensed Consolidated Financial Statements (Unaudited) — (Continued)

September 30, 2018

(\$ in thousands, except where noted)

20. SUBSEQUENT EVENTS

Class A Unit Distribution

On October 25, 2018, the Company announced a distribution of \$0.70 per Class A unit. This distribution, which is related to the third quarter of 2018, will be paid on November 13, 2018 to Class A unitholders of record at the close of business on November 5, 2018.

Series A Preferred Unit Distribution

On October 25, 2018, the Company announced a distribution of \$0.414063 per Series A preferred unit, which will be paid on December 17, 2018 to Series A preferred unitholders of record at the close of business on December 1, 2018.

Series B Preferred Unit Distribution

On October 25, 2018, the Company announced a distribution of \$0.573125 per Series B preferred unit, which will be paid on December 17, 2018 to Series B preferred unitholders of record at the close of business on December 1, 2018.

The first distribution on Series B preferred units is calculated based on the date of the original issuance, reflecting a period longer than three months. Future distributions will reflect a period of three months.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Oaktree Capital Group, LLC and the related notes included within this quarterly report. This discussion contains forward-looking statements that are subject to risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. The factors listed under "Risk Factors" and "Forward-Looking Statements" in this quarterly report and under "Risk Factors" in our annual report provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in any forward-looking statements.

Business Overview

Oaktree is a leader among global investment managers specializing in alternative investments, with \$123.5 billion in AUM as of September 30, 2018. Our mission is to deliver superior investment results with risk under control and to conduct our business with the highest integrity. We emphasize an opportunistic, value-oriented and risk-controlled approach to investments in credit, private equity, real assets and listed equities. Over more than three decades, we have developed a large and growing client base through our ability to identify and capitalize on opportunities for attractive investment returns in less efficient markets.

We manage assets on behalf of many of the most significant institutional investors in the world. Our clientele (excluding DoubleLine's clientele) includes 73 of the 100 largest U.S. pension plans, 38 state retirement plans in the United States, over 400 corporations and/or their pension funds, over 340 university, charitable and other endowments and foundations, over 15 sovereign wealth funds, and over 350 other non-U.S. institutional investors. As measured by AUM (excluding our pro-rata portion of DoubleLine's AUM), approximately 74% of our clients are invested in two or more different investment strategies, and 35% are invested in four or more. Headquartered in Los Angeles, we serve these clients with over 900 employees and offices in 18 cities worldwide.

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Our revenue flows from the management fees and incentive income generated by the funds that we manage, as well as the investment income earned from the investments we make in our funds, third-party funds and other companies. The management fees that we receive are based on the contractual terms of the relevant fund and are typically calculated as a fixed percentage of the capital commitments (as adjusted for distributions during a fund's liquidation period), drawn capital, cost basis or net asset value ("NAV") of the particular fund. Incentive income represents our share (up to 20%) of the investors' profits in most of the closed-end and evergreen funds. Investment income reflects the investment return on a mark-to-market basis and our equity participation on the amounts that we invest in Oaktree and third-party funds, as well as in CLOs and other companies.

Business Environment and Developments

As a global investment manager, we are affected by a wide range of factors, including the condition of the global economy and financial markets; the relative attractiveness of our investment strategies and investors' demand for them; and regulatory or other governmental policies or actions. Global economic conditions can significantly impact the values of our funds' investments and our ability to make new investments or sell existing investments for our funds. Historically, however, the diversified nature of both our investment strategies and our revenue mix has generally allowed us to benefit from both strong and weak economic environments. Weak economies and the declining financial markets that typically accompany them tend to dampen our revenues from asset-based management fees, investment realizations or price appreciation, but their prospect can present us with opportunities to raise relatively larger amounts of capital for certain strategies, especially Distressed Debt. Additionally, weak financial markets may also present us with more opportunities to make investments for our funds at reduced prices. Conversely, strong financial markets generally increase the value of our funds' investments, which positions us for growth in management fees that are based on asset value, and typically create favorable exit opportunities that enhance the prospect for incentive income and fund-related investment income proceeds. Those same markets may delay or diminish opportunities to deploy capital and thus management fees from certain of our funds.

Global equity markets were mostly positive in the third quarter despite rising U.S. interest rates. U.S. equities outperformed most other major equity markets, reaching new record highs in the quarter, primarily driven by continued economic growth and solid corporate earnings data. The S&P 500 Index finished the quarter with a total return of 7.7% and the Russell 2000 Index returned 3.6%. The U.S. dollar continued to strengthen against most other

currencies. Non-U.S. equities, as measured by the MSCI ACWI ex-USA Index, returned 0.7% in U.S.

dollar terms and 1.5% in local currency terms. Emerging market equities, as measured by the MSCI Emerging Markets Investable Market Index, delivered a -1.5% return in U.S. dollar terms and -0.4% in local currency terms. European equity markets, as measured by the MSCI Europe Index, returned 0.8% in U.S. dollar terms and 1.2% in local currency terms. U.S. Treasury bond prices declined in the quarter, as the yield on the 10-year U.S. Treasury rose 20 basis points, to 3.05%, from 2.85% at the end of the second quarter of 2018. The U.S. Federal Reserve raised short-term interest rates by 25 basis points in September, marking the third increase this year and the eighth since it began raising rates in 2015. U.S. high yield bonds, as measured by the FTSE US High Yield Cash-Pay Capped Index, returned 2.3% for the quarter, European high yield bonds, as measured by the ICE BofAML Global Non-Financial High Yield European Issuers excluding Russia 3% Constrained Index, returned 2.2% and emerging market corporate bonds, as measured by the JP Morgan Corporate Emerging Markets Bond Index (CEMBI), returned 1.5%. Against this backdrop, Oaktree's incentive-creating closed-end funds delivered an overall blended gross return of 3.2% for the quarter and 13.6% for the 12 months ended September 30, 2018. These returns exclude Highstar Capital IV, the infrastructure fund we inherited when adding the Highstar team back in 2014. Including Highstar Capital IV, the overall blended gross return was 3.1% for the quarter and 10.7% over the last twelve months. As of September 30, 2018, AUM was \$123.5 billion and management fee-generating AUM was \$100.7 billion. Gross capital raised was \$3.4 billion and \$10.2 billion for the quarter and 12 months ended September 30, 2018, respectively. As of September 30, 2018, uncalled capital commitments were \$21.4 billion. Of these commitments, \$15.4 billion were not yet generating management fees ("shadow AUM"). The largest portion of the shadow AUM, at \$8.3 billion, was represented by Oaktree Opportunities Fund Xb ("Opps Xb"). Currently, we do not expect Opps Xb to start its investment period and thus begin generating management fees based on committed capital until the latter half of 2019. Most of the remaining \$7.1 billion of shadow AUM charges management fees based on drawn capital, NAV or cost basis and, therefore, we currently expect it will start generating management fees on a gradual basis over multiple years. As a result, we do not expect management fees to grow significantly until the start of the investment period of Opps Xb.

Acquisition

On October 17, 2017, we completed a transaction in which we became the new investment adviser to two BDCs: Oaktree Specialty Lending Corporation (NASDAQ: OCSL) and Oaktree Strategic Income Corporation (NASDAQ: OCSI). Upon the closing of the transaction (the "BDC acquisition"), we paid \$320 million in cash to Fifth Street Management LLC, net of certain transaction-related expenses. The financial results in this quarterly report include the impact of the BDC acquisition beginning on October 17, 2017.

Understanding Our Results—Consolidation of Oaktree Funds

Generally accepted accounting principles in the United States ("GAAP") requires us to consolidate entities in which we have a direct or indirect controlling financial interest based on either a variable interest model or voting interest model. A limited partnership or similar entity is a variable interest entity ("VIE") if the unaffiliated limited partners do not have substantive kick-out or participating rights. Most of the Oaktree funds are VIEs because they have not granted unaffiliated limited partners substantive kick-out or participating rights. Oaktree consolidates those VIEs in which we are the primary beneficiary. For entities that are not VIEs, consolidation is evaluated through a majority voting interest model. Please see note 2 to our condensed consolidated financial statements for more information. We do not consolidate most of the Oaktree funds that are VIEs because we are not the primary beneficiary due to the fact that our fee arrangements are considered at-market and thus not deemed to be variable interests, and we do not hold any other interests in those funds that are considered to be more than insignificant. However, investment vehicles in which we have a significant investment, such as CLOs and certain Oaktree funds, are consolidated under GAAP ("consolidated funds"). When a CLO or fund is consolidated, we reflect the assets, liabilities, revenues, expenses and cash flows of the consolidated funds on a gross basis, and the majority of the economic interests in those consolidated funds, which are held by third-party investors, are reflected as debt obligations of CLOs or non-controlling interests in consolidated funds in the consolidated financial statements. All of the revenues earned by us as investment manager of the consolidated funds are eliminated in consolidation. However, because the eliminated amounts are earned from and funded by third-party investors, the consolidation of a fund does not impact net income or loss attributable to us.

Certain entities in which we have the ability to exert significant influence, including unconsolidated Oaktree funds for which we act as general partner, are accounted for under the equity method of accounting.

Management makes operating decisions and assesses business performance based on financial and operating metrics and data that are presented without the consolidation of any funds. For a more detailed discussion of the factors that affect the results of operations of our business, please see “—Non-GAAP Results” below.

Revenues

On January 1, 2018, we adopted the new revenue recognition standard on a modified retrospective basis. As a result, prior period amounts continue to be reported under historic GAAP. Upon adoption, we recorded a cumulative-effect increase to retained earnings as of January 1, 2018 of \$48.7 million, net of tax. This adjustment relates to incentive income that would have met the “probable that significant reversal will not occur” criteria as of January 1, 2018 under the new revenue standard. Please see note 4 to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information on revenues.

Our business generates three types of revenue: management fees, incentive income and investment income.

Management fees are billed monthly or quarterly based on annual rates and are typically earned for each of the funds that we manage. The contractual terms of management fees generally vary by fund structure. Management fees also may include performance-based fees earned from certain open-end and evergreen fund accounts. For non-GAAP reporting, management fees include the portion of the earnings from management fees attributable to our minority equity interest in DoubleLine. We also have the opportunity to earn incentive income from most of our closed-end and evergreen funds. Our closed-end funds generally provide that we receive incentive income only after we have returned to our investors all of their contributed capital plus an annual preferred return, typically 8%. Once this occurs, we generally receive as incentive income 80% of all distributions otherwise attributable to our investors, and those investors receive the remaining 20% until we have received, as incentive income, 20% of all such distributions in excess of the contributed capital from the inception of the fund. Thereafter, all such future distributions attributable to our investors are distributed 80% to those investors and 20% to us as incentive income. For non-GAAP reporting, incentive income also includes the portion of the performance fees attributable to our minority equity interest in DoubleLine earned in the period. Our third revenue source, investment income, represents our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds and companies.

Our consolidated revenues reflect the elimination of all management fees, incentive income and investment income earned by us as investment manager of our consolidated funds. Investment income is presented within the other income (loss) section of our condensed consolidated statements of operations. Please see “Business—Structure and Operation of Our Business—Structure of Funds” in our annual report for a detailed discussion of the structure of our funds.

Expenses

Compensation and Benefits

Compensation and benefits expense reflects all compensation-related items not directly related to incentive income, investment income or the vesting of Class A units, OCGH units, OCGH equity value units (“EVUs”), deferred equity units and other performance-based units, and includes salaries, bonuses, compensation based on management fees or a definition of profits, employee benefits, payroll taxes and phantom equity awards. Phantom equity awards represent liability-classified awards subject to vesting and remeasurement at the end of each reporting period. Phantom equity award expense reflects the vesting of those liability-classified awards, the equity distribution declared in the period and changes in the Class A unit trading price. For GAAP, compensation and benefits expense reflects the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company has determined it is the principal.

Equity-based Compensation

Equity-based compensation expense reflects the non-cash charge associated with grants of Class A units, OCGH units, EVUs, deferred equity units and other performance-based units. Our GAAP statements of operations include equity-based compensation expense for units granted both before and after our initial public offering. Our non-GAAP measure of adjusted net income differs from GAAP because it excludes equity-based compensation

expense for units granted before our initial public offering (please see “—Non-GAAP Measures—Adjusted Net Income” below).

As of September 30, 2018, there was \$157.1 million of unrecognized compensation expense for GAAP purposes, which is expected to be recognized as expense in our GAAP consolidated financial statements over a weighted average vesting period of 3.5 years. As of September 30, 2018, there was \$144.4 million of unrecognized compensation expense for adjusted net income, with the difference versus the GAAP figure representing unit grants made before our initial public offering. The \$144.4 million is expected to be recognized as expense in adjusted net income over a weighted average vesting period of approximately 3.6 years, as shown in the table below. These amounts are subject to change as a result of future unit grants, including those from our annual bonus awards which are typically issued in the first quarter of the following fiscal year, forfeitures, possible modifications to award terms, changes in the fair value of liability-classified EVUs, and changes in the estimated number of deferred equity units and other performance-based units that are expected to vest.

The following table summarizes the estimated amount of equity-based compensation expense to be included in adjusted net income:

Equity-based Compensation Expense Included in ANI	Last Three Month of 2018 (in millions) 2019 2020 2021 2022 Thereafter Total						
Estimated expense from equity grants awarded through September 2018	\$14.1	\$49.7	\$34.6	\$21.8	\$8.6	\$ 15.6	\$144.4

Incentive Income Compensation

Incentive income compensation expense primarily reflects compensation directly related to incentive income, which generally consists of percentage interests (sometimes referred to as “points”) that we grant to our investment professionals associated with the particular fund that generated the incentive income, and secondarily, compensation directly related to investment income. There is no fixed percentage for the incentive income-related portion of this compensation, either by fund or strategy. In general, within a particular strategy more recent funds have a higher percentage of aggregate incentive income compensation expense than do older funds. The percentage that consolidated incentive income compensation expense represents of the particular period’s consolidated incentive income may not be meaningful because incentive income from consolidated funds is eliminated in consolidation, whereas no incentive income compensation expense is eliminated in consolidation, and, in periods prior to the adoption of the new revenue standard on January 1, 2018, the criteria for recognizing income and expense differed under GAAP and thus may have resulted in timing differences. For the most meaningful percentage relationship, please see “—Non-GAAP Results” below.

General and Administrative

General and administrative expense includes costs related to occupancy, outside auditors, tax professionals, legal advisers, research, consultants, travel and entertainment, communications and information services, business process outsourcing, foreign-exchange activity, insurance, placement costs, changes in the contingent consideration liability, and other general items related directly to the Company’s operations. These expenses are net of amounts borne by fund investors and are not offset by credits attributable to fund investors’ non-controlling interests in consolidated funds. For GAAP, general and administrative expense reflects the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company has determined it is the principal.

Depreciation and Amortization

Depreciation and amortization expense includes costs associated with the purchase of furniture and equipment, capitalized software, office leasehold improvements, corporate aircraft and acquired intangibles. Furniture and equipment and capitalized software costs are depreciated using the straight-line method over the estimated useful life of the asset, which is generally three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the respective estimated useful life or the lease term. Company-owned aircraft are depreciated using the straight-line method over the estimated useful life. Acquired intangibles primarily relate to

contractual rights and are amortized over their estimated useful lives, which range from seven to 25 years.

Consolidated Fund Expenses

Consolidated fund expenses consist primarily of costs, expenses and fees that are incurred by, or arise out of the operation and activities of or otherwise are related to, our consolidated funds, including, without limitation, travel expenses, professional fees, research and software expenses, insurance, and other costs associated with administering and supporting those funds. Inasmuch as most of these fund expenses are borne by third-party investors, they reduce the investors' interests in the consolidated funds and have no impact on net income or loss attributable to the Company.

Other Income (Loss)

Interest Expense

Interest expense primarily reflects the interest expense of the consolidated funds, as well as the interest expense of Oaktree and its operating subsidiaries.

Interest and Dividend Income

Interest and dividend income consists of interest and dividend income earned on the investments held by our consolidated funds, and interest income earned by Oaktree and its operating subsidiaries.

Net Realized Gain (Loss) on Consolidated Funds' Investments

Net realized gain (loss) on consolidated funds' investments consists of realized gains and losses arising from dispositions of investments held by our consolidated funds.

Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments

Net change in unrealized appreciation (depreciation) on consolidated funds' investments reflects both unrealized gains and losses on investments held by our consolidated funds and the reversal upon disposition of investments of unrealized gains and losses previously recognized for those investments.

Investment Income

Investment income represents our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds and companies. Investment income, as reflected in our condensed consolidated statements of operations, excludes investment income earned by us from our consolidated funds. For non-GAAP reporting, investment income attributable to our minority equity interest in DoubleLine is reflected in management fees and incentive income as discussed under "Revenues" above.

Other Income (Expense), Net

Other income (expense), net represents non-operating income or expense, including income related to amounts received from a legacy Highstar fund for contractually reimbursable costs in connection with the Highstar acquisition. The legacy Highstar fund stopped paying management fees in the fourth quarter of 2017. As a result, we will no longer be receiving such income.

Income Taxes

Oaktree is a publicly traded partnership. Because it satisfies the qualifying income test, it is not required to be treated as a corporation for U.S. federal and state income tax purposes. Instead, it is taxed as a partnership. Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc., which are two of our five Intermediate Holding Companies and wholly-owned subsidiaries, are subject to U.S. federal and state income taxes. The remainder of Oaktree's income is generally not subject to corporate-level taxation.

Oaktree's effective tax rate is dependent on many factors, including the mix of revenues and expenses between our two corporate Intermediate Holding Companies that are subject to income tax and our three other Intermediate Holding Companies that are not; consequently, the effective tax rate is subject to significant variation from period to period. Oaktree's effective tax rate used for interim periods is based on the estimated full year income tax rate. Certain items that cannot be reliably estimated, such as incentive income, are excluded from the estimated annual effective tax rate. The tax expense or benefit stemming from these items is recognized in the same period as the underlying income or expense.

Oaktree's non-U.S. income or loss before taxes is generally not significant in relation to total pre-tax income or loss, and is generally more predictable because, unlike U.S. pre-tax income, it is not significantly impacted by unrealized gains or losses. Non-U.S. tax expense typically represents a disproportionately large percentage of total income tax expense because nearly all of our non-U.S. income or loss is subject to corporate-level income tax, whereas a substantial portion of our U.S.-based income or loss is not subject to corporate-level taxes. In addition, changes in the proportion of non-U.S. pre-tax income to total pre-tax income impact Oaktree's effective tax rate to the extent non-U.S. rates differ from the combined U.S. federal and state tax rate.

Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets would be reduced by a valuation allowance if it becomes more likely than not that some portion or all of the deferred tax assets will not be realized.

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests represents the ownership interests that third parties hold in entities that are consolidated in our financial statements. These interests fall into two categories:

Net Income Attributable to Non-controlling Interests in Consolidated Funds. This category represents the economic interests of the unaffiliated investors in the consolidated funds, as well as the equity interests held by third-party investors in CLOs that had not yet priced as of the respective period end. Those interests are primarily driven by the investment performance of the consolidated funds. In comparison to net income, this measure excludes our operating results and other items solely attributable to the Company;

Net Income Attributable to Non-controlling Interests in Consolidated Subsidiaries. This category primarily represents the economic interest in the Oaktree Operating Group owned by OCGH ("OCGH non-controlling interest"), as well as the economic interest in certain consolidated subsidiaries held by third parties. The OCGH non-controlling interest is determined at the Oaktree Operating Group level based on the weighted average proportionate share of Oaktree Operating Group units held by the OCGH unitholders. Inasmuch as the number of outstanding Oaktree Operating Group units corresponds with the total number of outstanding Class A and OCGH units, changes in the economic interest held by the OCGH unitholders are driven by our additional issuances of Class A and OCGH units, as well as repurchases and forfeitures of, and exchanges between, Class A and OCGH units. Certain of our expenses, such as income tax and related administrative expenses of Oaktree Capital Group, LLC and its Intermediate Holding Companies, are solely attributable to the Class A unitholders. Please see note 13 to our condensed consolidated financial statements included elsewhere in this quarterly report for additional information on the economic interest in the Oaktree Operating Group owned by OCGH; and

Net Income Attributable to Preferred Unitholders

This category represents distributions declared, if any, on our preferred units. Please see note 13 to our condensed consolidated financial statements for more information.

Non-GAAP Measures

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial and operating metrics and data that are presented without the consolidation of any funds. The data most important to management in assessing our performance are adjusted net income, distributable earnings and fee-related earnings, each for both the Operating Group and per Class A unit. For a detailed reconciliation of the non-GAAP results of operations to our condensed consolidated statements of operations, please see “—Non-GAAP Results—Reconciliation of GAAP to Non-GAAP Results” below.

Adjusted Net Income

We use adjusted net income (“ANI”) to help evaluate the financial performance of, and make resource allocation and other operating decisions for, our investment management business. The components of revenues (“adjusted revenues”) and expenses (“adjusted expenses”) used in the determination of ANI do not give effect to the consolidation of the funds that we manage. Adjusted revenues include investment income (loss) that is classified in other income (loss) in the GAAP statements of operations, and management fees and incentive income include the portion of the earnings from management fees and performance fees, respectively, attributable to our 20% ownership interest in DoubleLine, which are reflected as investment income in our GAAP statements of operations. In addition, ANI excludes the effect of (a) non-cash equity-based compensation expense related to unit grants made before our initial public offering, (b) acquisition-related items, including amortization of intangibles and changes in the contingent consideration liability, (c) income taxes, (d) other income or expenses applicable to OCG or its Intermediate Holding Companies, (e) the adjustment for non-controlling interests, (f) preferred unit distributions, and (g) the Tax Cuts and Jobs Act, including the remeasurement of our deferred tax assets and tax receivable liability in the fourth quarter of 2017. Moreover, gains and losses resulting from foreign-currency transactions and hedging activities under GAAP are recognized as general and administrative expense whether realized or unrealized in the current period. For ANI, unrealized gains and losses from foreign-currency hedging activities are deferred until realized, at which time they are included in the same revenue or expense line item as the underlying exposure that was hedged, and foreign-currency transaction gains and losses are included in other income (expense), net. Incentive income and incentive income compensation expense are included in ANI when the underlying fund distributions are known or knowable as of the respective quarter end, which may be later than the time at which the same revenue or expense is included in the GAAP statements of operations, for which the revenue standard is probable that significant reversal will not occur and the expense standard is probable and reasonably estimable. CLO investments are carried at fair value for GAAP reporting, whereas for ANI, they are carried at amortized cost, subject to any impairment charges. Investment income on CLO investments is recognized in ANI when cash distributions are received. Cash distributions are allocated between income and return of capital based on the effective yield method. In periods prior to 2018, adjusted revenues and adjusted expenses reflected Oaktree’s proportionate economic interest in Highstar, whereby amounts received for contractually reimbursable costs from a legacy Highstar fund were classified as expenses for ANI and as other income under GAAP. The legacy Highstar fund stopped paying management fees in 2017. As a result, we no longer receive such reimbursement amounts. ANI is calculated at the Operating Group level.

Among other factors, our accounting policy for recognizing incentive income and the inclusion of non-cash equity-based compensation expense related to unit grants made after our initial public offering will likely make our calculation of ANI not directly comparable to economic net income or other similarly named measures utilized by other asset managers.

We calculate adjusted net income-Class A, or adjusted net income per Class A unit, a non-GAAP performance measure, to provide Class A unitholders with a measure that shows the portion of ANI attributable to their ownership. Adjusted net income-Class A represents ANI including the effect of (a) preferred unit distributions, (b) the OCGH non-controlling interest, (c) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (d) any Operating Group income taxes attributable to OCG. Two of our Intermediate Holding Companies incur federal and state income taxes for their shares of Operating Group income. Generally, those two corporate entities hold an interest in the Operating Group’s management fee-generating assets and a small portion of its incentive and investment income-generating assets. As a result, historically our fee-related earnings generally have been subject to corporate-level taxation, and most of our incentive income and other

investment income generally has not been subject to corporate-level taxation. Thus, the blended effective income tax rate has generally tended to be higher to the extent that fee-related earnings

represented a larger proportion of our ANI. A variety of other factors affect income tax expense and the effective income tax rate, and there can be no assurance that this historical relationship will continue going forward.

Distributable Earnings

We use distributable earnings to help evaluate the financial performance of, and make resource allocation and other operating decisions for, our business. Distributable earnings is a non-GAAP performance measure derived from ANI that we use to measure our earnings at the Operating Group level without the effects of the consolidated funds for the purpose of, among other things, assisting in the determination of equity distributions from the Operating Group. However, the declaration, payment and determination of the amount of equity distributions, if any, is at the sole discretion of our board of directors, which may change our distribution policy at any time.

Distributable earnings and distributable earnings revenues differ from ANI in that they exclude investment income or loss and include the portion of income or loss on distributions received from funds and companies. In addition, distributable earnings differs from ANI in that (a) any impairment charges on our CLO investments included in ANI are, for distributable earnings purposes, amortized over the remaining investment period of the respective CLO and (b) make-whole premium charges related to the repayment of debt included in ANI are, for distributable earnings purposes, amortized through the original maturity date of the repaid debt. Finally, distributable earnings differs from ANI in that it is net of Operating Group income taxes and excludes non-cash equity-based compensation expense. Investment income or loss, which for equity-method investments in funds represents our pro-rata share of income or loss, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds, is largely non-cash in nature. By excluding investment income or loss, which is not directly available to fund our operations or make equity distributions, and including the portion of distributions from Oaktree and non-Oaktree funds and companies to us that represents the income or loss component of the distributions and not a return of our capital contributions, distributable earnings aids us in measuring amounts that are actually available to meet our obligations under the tax receivable agreement and our liabilities for expenses incurred at OCG and the Intermediate Holding Companies, as well as for distributions to Class A and OCGH unitholders.

Distributable earnings-Class A, or distributable earnings per Class A unit, is a non-GAAP performance measure calculated to provide Class A unitholders with a measure that shows the portion of distributable earnings attributable to their ownership. Distributable earnings-Class A represents distributable earnings, including the effect of (a) preferred unit distributions, (b) the OCGH non-controlling interest, (c) expenses, such as current income tax expense, applicable to OCG or its Intermediate Holding Companies and (d) amounts payable under a tax receivable agreement. The income tax expense included in distributable earnings-Class A represents the implied current provision for income taxes calculated using an approach similar to that which is used in calculating the income tax provision for adjusted net income-Class A.

Fee-related Earnings

Fee-related earnings is a non-GAAP performance measure that we use to monitor the baseline earnings of our business. Fee-related earnings is derived from our non-GAAP results and is comprised of management fees (“fee-related earnings revenues”) less operating expenses other than incentive income compensation expense and non-cash equity-based compensation expense. Fee-related earnings is considered baseline because it excludes all non-management fee revenue sources and applies all cash compensation and benefits other than incentive income compensation expense, as well as all general and administrative expenses, to management fees, even though those expenses also support the generation of incentive and investment income. Fee-related earnings is presented before income taxes.

Fee-related earnings-Class A, or fee-related earnings per Class A unit, is a non-GAAP performance measure calculated to provide Class A unitholders with a measure that shows the portion of fee-related earnings attributable to their ownership. Fee-related earnings-Class A represents fee-related earnings including the effect of (a) the OCGH non-controlling interest, (b) other income or expenses, such as income tax expense, applicable to OCG or its Intermediate Holding Companies and (c) any Operating Group income taxes attributable to OCG. The income tax expense included in fee-related earnings-Class A is calculated excluding any incentive income or investment income (loss).

Assets Under Management

AUM generally refers to the assets we manage and equals the NAV of the assets we manage, the leverage on which management fees are charged, the undrawn capital that we are entitled to call from investors in our funds pursuant to their capital commitments, and our pro-rata portion of AUM managed by DoubleLine in which we hold a minority ownership interest. For our CLOs, AUM represents the aggregate par value of collateral assets and principal cash, for our publicly-traded BDCs, gross assets (including assets acquired with leverage), net of cash, and for DoubleLine funds, NAV. Our AUM includes amounts for which we charge no management fees. Our definition of AUM is not based on any definition contained in our operating agreement or the agreements governing the funds that we manage. Our calculation of AUM and the two AUM-related metrics below may not be directly comparable to the AUM metrics of other investment managers.

Management Fee-generating Assets Under Management. Management fee-generating AUM is a forward-looking metric and generally reflects the beginning AUM on which we will earn management fees in the following quarter, as well as our pro-rata portion of the fee basis of DoubleLine's AUM. Our closed-end funds typically pay management fees based on committed capital, drawn capital or cost basis during the investment period, without regard to changes in NAV, and during the liquidation period on the lesser of (a) total funded capital or (b) the cost basis of assets remaining in the fund. Certain closed-end funds pay management fees based on gross assets or NAV. The annual management fee rate generally remains unchanged from the investment period through the liquidation period. Our open-end and evergreen funds typically pay management fees based on their NAV, our CLOs pay management fees based on the aggregate par value of collateral assets and principal cash, as defined in the applicable CLO indentures, our publicly-traded BDCs pay management fees based on gross assets (including assets acquired with leverage), net of cash, and DoubleLine funds typically pay management fees based on NAV.

Incentive-creating Assets Under Management. Incentive-creating AUM refers to the AUM that may eventually produce incentive income. It generally represents the NAV of our funds for which we are entitled to receive an incentive allocation, excluding CLOs and investments made by us and our employees and directors (which are not subject to an incentive allocation), gross assets (including assets acquired with leverage), net of cash, for our publicly-traded BDCs, and our pro-rata portion of DoubleLine's incentive-creating AUM. All funds for which we are entitled to receive an incentive allocation are included in incentive-creating AUM, regardless of whether or not they are currently above their preferred return or high-water mark and therefore generating incentives. Incentive-creating AUM does not include undrawn capital commitments.

Accrued Incentives (Fund Level) and Incentives Created (Fund Level)

Our funds record as accrued incentives the incentive income that would be paid to us if the funds were liquidated at their reported values as of the date of the financial statements. Incentives created (fund level) refers to the gross amount of potential incentives generated by the funds during the period, and includes our pro-rata portion of performance fees attributable to our minority interest in DoubleLine earned in the period. We refer to the amount of accrued incentives recognized as revenue by us as incentive income. Amounts recognized by us as incentive income are no longer included in accrued incentives (fund level), the term we use for remaining fund-level accruals. The amount of incentives created may fluctuate substantially as a result of changes in the fair value of the underlying investments of the fund, as well as incentives created in excess of our typical 20% share due to catch-up allocations for applicable closed-end funds. Generally speaking, while in the catch-up layer, approximately 80% of any increase or decrease, respectively, in the fund's NAV results in a commensurate amount of positive or negative incentives created (fund level).

The same performance and market risks inherent in incentives created (fund level) affect the ability to ultimately realize accrued incentives (fund level). One consequence of the accounting method we follow for incentives created (fund level) is that accrued incentives (fund level) is an off-balance sheet metric, rather than being an on-balance sheet receivable that could require reduction if fund performance suffers. We track accrued incentives (fund level) because it provides an indication of potential future value, though the timing and ultimate realization of that value are uncertain.

Incentives created (fund level), incentive income and accrued incentives (fund level) are presented gross, without deduction for direct compensation expense that is owed to our investment professionals associated with the particular fund when we earn the incentive income. We call that charge "incentive income compensation expense."

Incentive income compensation expense varies by the investment strategy and vintage of the particular fund, among many other factors.

Incentives created (fund level) often reflects investments measured at fair value and therefore is subject to risk of substantial fluctuation by the time the underlying investments are liquidated. We earn the incentive income, if any, that the fund is then obligated to pay us with respect to our incentive interest (generally 20%) in the profits of our unaffiliated investors, subject to an annual preferred return of typically 8%. Under GAAP, incentive income is recognized when it is probable that significant reversal of revenue will not occur. For purposes of ANI and distributable earnings, we recognize incentive income when the underlying fund distributions are known or knowable as of the respective quarter end, which reduces the possibility that revenue recognized by us would be reversed in a subsequent period. We track incentives created (fund level) because it provides an indication of the value for us currently being created by our investment activities and facilitates comparability with those companies in our industry that account for investments in carry funds as equity-method investments, thus effectively reflecting an accrual-based method for recognizing incentive income in their financial statements.

Uncalled Capital Commitments

Uncalled capital commitments represent undrawn capital commitments by partners (including Oaktree as general partner) of our closed-end funds through their investment periods and certain evergreen funds. If a closed-end fund distributes capital during its investment period, that capital is typically subject to possible recall, in which case it is included in uncalled capital commitments.

Invested Capital

Invested capital reflects deployed capital, whether involving drawn or recycled equity capital, or borrowings from fund-level credit facilities. This metric is used in connection with incentive-creating closed-end funds and certain evergreen funds.

GAAP Consolidated Results of Operations ⁽¹⁾

The following table sets forth our unaudited condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per unit data)			
Revenues:				
Management fees	\$175,195	\$181,312	\$538,706	\$542,268
Incentive income	66,032	53,720	253,125	616,404
Total revenues	241,227	235,032	791,831	1,158,672
Expenses:				
Compensation and benefits	(101,787)	(98,224)	(315,614)	(304,713)
Equity-based compensation	(14,747)	(15,828)	(44,614)	(45,529)
Incentive income compensation	(27,294)	(26,362)	(127,327)	(327,526)
Total compensation and benefits expense	(143,828)	(140,414)	(487,555)	(677,768)
General and administrative	(38,051)	(24,096)	(110,459)	(90,703)
Depreciation and amortization	(6,459)	(3,037)	(19,412)	(9,865)
Consolidated fund expenses	(2,829)	(2,226)	(9,383)	(7,425)
Total expenses	(191,167)	(169,773)	(626,809)	(785,761)
Other income (loss):				
Interest expense	(39,456)	(35,776)	(115,504)	(128,797)
Interest and dividend income	74,490	55,218	205,089	155,092
Net realized gain (loss) on consolidated funds' investments	(9,812)	3,392	(12,509)	1,755
Net change in unrealized appreciation (depreciation) on consolidated funds' investments	10,552	3,662	(34,939)	56,793
Investment income	58,196	51,061	149,682	150,618
Other income, net	5,629	5,418	7,240	14,979
Total other income	99,599	82,975	199,059	250,440
Income before income taxes	149,659	148,234	364,081	623,351
Income taxes	(6,568)	(13,857)	(17,832)	(31,700)
Net income	143,091	134,377	346,249	591,651
Less:				
Net income attributable to non-controlling interests in consolidated funds	(14,427)	(9,990)	(17,792)	(23,543)
Net income attributable to non-controlling interests in consolidated subsidiaries	(72,005)	(78,546)	(187,945)	(350,028)
Net income attributable to OCG	56,659	45,841	140,512	218,080
Net income attributable to preferred unitholders	(3,909)	—	(3,909)	—
Net income attributable to OCG Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080
Distributions declared per Class A unit	\$0.55	\$1.31	\$2.27	\$2.65
Net income per Class A unit (basic and diluted):				
Net income per Class A unit	\$0.74	\$0.71	\$1.95	\$3.41
Weighted average number of Class A units outstanding	71,369	64,394	70,167	63,875

In the first quarter of 2018, Oaktree adopted the new revenue recognition standard on a modified retrospective basis, which did not require prior periods to be recast. Instead, a cumulative-effect adjustment to increase retained earnings of \$48.7 million, net of tax, was recorded as of January 1, 2018. This adjustment relates to revenues that would have met the recognition criteria under the new standard as of January 1, 2018.

(1)

Third Quarter Ended September 30, 2018 Compared to the Third Quarter Ended September 30, 2017

Revenues

Management Fees

Management fees decreased \$6.1 million, or 3.4%, to \$175.2 million for the third quarter of 2018, from \$181.3 million for the third quarter of 2017. The decrease reflected an aggregate decline of \$25.8 million primarily attributable to unconsolidated closed-end funds in liquidation, partially offset by an aggregate increase of \$19.7 million principally from the BDC acquisition, closed-end funds that pay management fees based on drawn capital, NAV or cost basis, and the impact of applying the new revenue standard effective in the first quarter of 2018 which resulted in a \$2.8 million increase in the third quarter of 2018.

Incentive Income

Incentive income increased \$12.3 million, or 22.9%, to \$66.0 million for the third quarter of 2018, from \$53.7 million for the third quarter of 2017. The third quarter of 2018 included \$45.8 million from OCM Opportunities Fund VIIb and \$14.0 million from Emerging Markets Debt funds. The impact of applying the new revenue standard effective in the first quarter of 2018 resulted in a \$4.9 million decrease in incentive income for the third quarter of 2018.

Expenses

Compensation and Benefits

Compensation and benefits expense increased \$3.6 million, or 3.7%, to \$101.8 million for the third quarter of 2018, from \$98.2 million for the third quarter of 2017, in part due to the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company is the principal in connection with the adoption of the new revenue standard in the first quarter of 2018.

Equity-based Compensation

Equity-based compensation expense decreased \$1.1 million, or 7.0%, to \$14.7 million for the third quarter of 2018, from \$15.8 million for the third quarter of 2017.

Incentive Income Compensation

Incentive income compensation expense increased \$0.9 million, or 3.4%, to \$27.3 million for the third quarter of 2018, from \$26.4 million for the third quarter of 2017, primarily reflecting the growth in incentive income, largely offset by a lower overall compensation percentage in the third quarter of 2018.

General and Administrative

General and administrative expense increased \$14.0 million, or 58.1%, to \$38.1 million for the third quarter of 2018, from \$24.1 million for the third quarter of 2017. Excluding the impact of foreign currency-related items, which stemmed primarily from foreign-currency hedges used to economically hedge our non-U.S. dollar denominated revenues and expenses, general and administrative expense increased \$11.4 million, or 45.2%, to \$36.6 million from \$25.2 million, primarily reflecting higher placement costs associated with fundraising for closed-end and evergreen funds, professional fees and other general operating items, as well as the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company is the principal in connection with adoption of the new revenue standard in the first quarter of 2018.

Depreciation and Amortization

Depreciation and amortization expense increased \$3.5 million, or 116.7%, to \$6.5 million for the third quarter of 2018, from \$3.0 million for the third quarter of 2017, primarily reflecting the amortization of intangibles related to the BDC acquisition in the fourth quarter of 2017.

Consolidated Fund Expenses

Consolidated fund expenses increased \$0.6 million, or 27.3%, to \$2.8 million for the third quarter of 2018, from \$2.2 million for the third quarter of 2017. The increase reflected higher professional fees and other costs of our consolidated funds.

Other Income (Loss)

Interest Expense

Interest expense increased \$3.7 million, or 10.3%, to \$39.5 million for the third quarter of 2018, from \$35.8 million for the third quarter of 2017. The increase was primarily attributable to our consolidated funds, partially offset by the refinancing of our senior notes in the fourth quarter of 2017.

Interest and Dividend Income

Interest and dividend income increased \$19.3 million, or 35.0%, to \$74.5 million for the third quarter of 2018, from \$55.2 million for the third quarter of 2017. The increase was primarily attributable to our consolidated funds.

Net Realized Gain (Loss) on Consolidated Funds' Investments

Net realized gain (loss) on consolidated funds' investments decreased \$13.2 million, to a loss of \$9.8 million for the third quarter of 2018, from a gain of \$3.4 million for the third quarter of 2017. The decrease reflected our consolidated funds' performance in each period.

Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments

Net change in unrealized appreciation (depreciation) on consolidated funds' investments increased \$6.9 million, to a gain of \$10.6 million for the third quarter of 2018, from \$3.7 million for the third quarter of 2017. Excluding the impact of the reversal of net realized gain (loss) on consolidated funds' investments, the net change in unrealized appreciation (depreciation) on consolidated funds' investments decreased \$6.4 million, to a net gain of \$0.7 million for the third quarter of 2018, from \$7.1 million for the third quarter of 2017, reflecting our consolidated funds' performance in each period.

Investment Income

Investment income increased \$7.1 million, or 13.9%, to \$58.2 million for the third quarter of 2018, from \$51.1 million for the third quarter of 2017. The increase primarily reflected higher returns on non-Oaktree investments.

Other Income, Net

Other income, net increased \$0.2 million, or 3.7%, to \$5.6 million for the third quarter of 2018, from \$5.4 million for the third quarter of 2017. The third quarter of 2018 primarily reflected gains associated with non-operating corporate activities. The third quarter of 2017 primarily reflected reimbursements received from a legacy Highstar fund for certain expenses related to the infrastructure investing team that stopped paying such reimbursements in the fourth quarter of 2017.

Income Taxes

Income taxes decreased \$7.3 million, or 52.5%, to \$6.6 million for the third quarter of 2018, from \$13.9 million for the third quarter of 2017. The decrease primarily reflected a lower effective tax rate for the third quarter of 2018, in part due to the Tax Act that was enacted in December 2017. The effective tax rates applicable to Class A unitholders for the third quarters of 2018 and 2017 were 11% and 19%, respectively, resulting from full-year effective rates of 8% and 12%, respectively. The effective tax rate used for interim fiscal periods is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with the tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods, because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and may vary significantly within or between years. Please see "—Understanding Our Results—Consolidation of Oaktree Funds."

Net Income Attributable to Non-controlling Interests in Consolidated Funds

Net income attributable to non-controlling interests in consolidated funds increased \$4.4 million, to \$14.4 million for the third quarter of 2018, from \$10.0 million for the third quarter of 2017. The increase reflected our consolidated funds' performance attributable to third-party investors in each period.

Net Income Attributable to Oaktree Capital Group, LLC Class A Unitholders

Net income attributable to Oaktree Capital Group, LLC Class A unitholders increased \$7.0 million, or 15.3%, to \$52.8 million for the third quarter of 2018, from \$45.8 million for the third quarter of 2017, primarily reflecting higher profits, as well as a larger allocation of income to OCG Class A unitholders resulting from an increase in the average number of Class A units outstanding.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Revenues

Management Fees

Management fees decreased \$3.6 million, or 0.7%, to \$538.7 million for the first nine months of 2018, from \$542.3 million for the first nine months of 2017. The decrease reflected an aggregate decline of \$66.6 million primarily attributable to unconsolidated closed-end funds in liquidation, largely offset by an aggregate increase of \$63.0 million principally from the BDC acquisition, the start of the investment period for Oaktree European Principal Fund IV (“EPF IV”) in July 2017, closed-end funds that pay management fees based on drawn capital, NAV or cost basis, and the impact of applying the new revenue standard effective in the first quarter of 2018 which resulted in a \$9.5 million increase for the first nine months of 2018.

Incentive Income

Incentive income decreased \$363.3 million, or 58.9%, to \$253.1 million for the first nine months of 2018, from \$616.4 million for the first nine months of 2017. The decrease was primarily attributable to lower incentive income from OCM Principal Opportunities Fund IV (“POF IV”), which started paying incentive income in the second quarter of 2017. The impact of applying the new revenue standard effective in the first quarter of 2018 resulted in a \$52.0 million decrease in incentive income for the first nine months of 2018.

Expenses

Compensation and Benefits

Compensation and benefits expense increased \$10.9 million, or 3.6%, to \$315.6 million for the first nine months of 2018, from \$304.7 million for the first nine months of 2017, in part reflecting growth in average headcount, as well as the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company is the principal in connection with the adoption of the new revenue standard in the first quarter of 2018.

Equity-based Compensation

Equity-based compensation expense decreased \$0.9 million, or 2.0%, to \$44.6 million for the first nine months of 2018, from \$45.5 million for the first nine months of 2017.

Incentive Income Compensation

Incentive income compensation expense decreased \$200.2 million, or 61.1%, to \$127.3 million for the first nine months of 2018, from \$327.5 million for the first nine months of 2017, primarily reflecting the decline in incentive income.

General and Administrative

General and administrative expense increased \$19.8 million, or 21.8%, to \$110.5 million for the first nine months of 2018, from \$90.7 million for the first nine months of 2017. Excluding the impact of foreign currency-related items, which stemmed primarily from foreign-currency hedges used to economically hedge our non-U.S. dollar denominated revenues and expenses, general and administrative expense increased \$14.7 million, or 16.0%, to \$106.8 million from \$92.1 million, primarily reflecting higher placement costs associated with fundraising for closed-end and evergreen funds, new product development costs and other general operating items, as well as the gross-up of reimbursable costs incurred on behalf of Oaktree funds in which the Company is the principal in connection with the adoption of the new revenue standard in the first quarter of 2018. These increases were partially offset by changes in the contingent consideration liability.

Depreciation and Amortization

Depreciation and amortization expense increased \$9.5 million, or 96.0%, to \$19.4 million for the first nine months of 2018, from \$9.9 million for the first nine months of 2017, primarily reflecting the amortization of intangibles related to the BDC acquisition in the fourth quarter of 2017.

Consolidated Fund Expenses

Consolidated fund expenses increased \$2.0 million, or 27.0%, to \$9.4 million for the first nine months of 2018, from \$7.4 million for the first nine months of 2017. The increase reflected higher professional fees and other costs of our consolidated funds.

Other Income (Loss)

Interest Expense

Interest expense decreased \$13.3 million, or 10.3%, to \$115.5 million for the first nine months of 2018, from \$128.8 million for the first nine months of 2017. The decrease reflected the refinancing of our senior notes in the fourth quarter of 2017 and lower interest expense of our consolidated funds.

Interest and Dividend Income

Interest and dividend income increased \$50.0 million, or 32.2%, to \$205.1 million for the first nine months of 2018, from \$155.1 million for the first nine months of 2017. The increase was primarily attributable to our consolidated funds.

Net Realized Gain (Loss) on Consolidated Funds' Investments

Net realized gain (loss) on consolidated funds' investments decreased \$14.3 million, to a loss of \$12.5 million for the first nine months of 2018, from income of \$1.8 million for the first nine months of 2017, reflecting our consolidated funds' performance in each period.

Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments

Net change in unrealized appreciation (depreciation) on consolidated funds' investments decreased \$91.7 million, to a loss of \$34.9 million for the first nine months of 2018, from a gain of \$56.8 million for the first nine months of 2017. Excluding the impact of the reversal of net realized gain (loss) on consolidated funds' investments, the net change in unrealized appreciation (depreciation) on consolidated funds' investments decreased \$105.9 million, to a net loss of \$47.4 million for the first nine months of 2018, from a net gain of \$58.5 million for the first nine months of 2017, reflecting our consolidated funds' performance in each period.

Investment Income

Investment income decreased \$0.9 million, or 0.6%, to \$149.7 million for the first nine months of 2018, from \$150.6 million for the first nine months of 2017, reflecting overall returns on our unconsolidated fund investments.

Other Income, Net

Other income, net decreased \$7.8 million, or 52.0%, to \$7.2 million for the first nine months of 2018, from \$15.0 million for the first nine months of 2017. The decrease primarily reflected reimbursements we received in 2017 from a legacy Highstar fund for certain expenses related to the infrastructure investing team that stopped paying such reimbursements in the fourth quarter of 2017, partially offset by gains associated with non-operating corporate activities in 2018.

Income Taxes

Income taxes decreased \$13.9 million, or 43.8%, to \$17.8 million for the first nine months of 2018, from \$31.7 million for the first nine months of 2017. The decrease primarily reflected lower pre-tax income attributable to Class A unitholders, as well as a lower effective tax rate, in part due to the Tax Act. The effective tax rates applicable to Class A unitholders for the first nine months of 2018 and 2017 were 10% and 11%, respectively. The effective tax rate used for interim fiscal periods is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with the tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods, because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and may vary significantly within or between years. Please see “—Understanding Our Results—Consolidation of Oaktree Funds.”

Net Income Attributable to Non-controlling Interests in Consolidated Funds

Net income attributable to non-controlling interests in consolidated funds decreased \$5.7 million, or 24.3%, to \$17.8 million for the first nine months of 2018, from \$23.5 million for the first nine months of 2017. The decrease reflected our consolidated funds' performance attributable to third-party investors in each period.

Net Income Attributable to Oaktree Capital Group, LLC Class A Unitholders

Net income attributable to Oaktree Capital Group, LLC Class A unitholders decreased \$81.5 million, or 37.4%, to \$136.6 million for the first nine months of 2018, from \$218.1 million for the first nine months of 2017. The decrease primarily reflected lower incentive income and the adoption of the new revenue standard in the first quarter of 2018.

Non-GAAP Financial Data

Oaktree presents certain revenues and financial measures, including measures that are calculated and presented on a basis other than GAAP (“non-GAAP”). Examples of such non-GAAP measures are identified in the table below. Such non-GAAP measures should be considered in addition to, and not as a substitute for or superior to, net income, net income per Class A unit or other financial measures calculated in accordance with GAAP.

The following table presents non-GAAP financial data:

	As of or for the Three Months Ended September 30, 2018		As of or for the Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
(in thousands, except per unit data or as otherwise indicated)				
Non-GAAP Results: ⁽¹⁾				
Adjusted revenues	\$320,166	\$304,756	\$1,044,847	\$1,400,305
Adjusted net income	137,511	131,436	389,369	574,254
Adjusted net income per Class A unit	0.78	0.67	2.20	3.26
Distributable earnings revenues	319,822	282,867	1,084,141	1,360,471
Distributable earnings	147,849	119,030	456,108	567,541
Distributable earnings per Class A unit	0.88	0.74	2.74	3.28
Fee-related earnings revenues	197,056	203,440	595,938	607,361
Fee-related earnings	56,286	76,579	165,648	209,359
Fee-related earnings per Class A unit	0.34	0.42	0.99	1.13
Weighted Average Units:				
OCGH	85,775	91,864	86,675	91,750
Class A	71,369	64,394	70,167	63,875
Total	157,144	156,258	156,842	155,625
Operating Metrics: ⁽¹⁾				
Assets under management (in millions):				
Assets under management	\$123,516	\$122,589	\$123,516	\$122,589
Management fee-generating assets under management	100,693	103,244	100,693	103,244
Incentive-creating assets under management	33,626	31,564	33,626	31,564
Uncalled capital commitments	21,435	21,202	21,435	21,202
Accrued incentives (fund level):				
Incentives created (fund level)	134,966	135,595	365,468	508,414
Incentives created (fund level), net of associated incentive income compensation expense	59,278	61,387	172,497	245,715
Accrued incentives (fund level)	1,924,410	1,860,665	1,924,410	1,860,665
Accrued incentives (fund level), net of associated incentive income compensation expense	914,886	899,891	914,886	899,891

(1) Beginning with the first quarter of 2018, management fees and incentive income reflect the portion of the earnings from management fees and performance fees, respectively, attributable to our 20% ownership interest in DoubleLine. Such earnings were previously reported as investment income. Additionally, AUM, management fee-generating AUM, incentive-creating AUM and incentives created (fund level) now reflect our pro-rata portion (based on our 20% ownership stake) of DoubleLine’s total AUM, management fee-generating AUM,

incentive-creating AUM and performance fees, respectively. All prior periods have been recast to reflect this change.

Operating Metrics

We monitor certain operating metrics that are either common to the alternative asset management industry or that we believe provide important data regarding our business. These operating metrics include AUM, management fee-generating AUM, incentive-creating AUM, incentives created (fund level), accrued incentives (fund level) and uncalled capital commitments.

Assets Under Management

	As of		
	September 30, 2018	June 30, 2018	September 30, 2017
Assets Under Management: (in millions)			
Closed-end funds	\$57,734	\$56,294	\$57,769
Open-end funds	32,454	32,824	35,793
Evergreen funds	8,672	8,426	5,953
DoubleLine ⁽¹⁾	24,656	24,040	23,074
Total	\$123,516	\$121,584	\$122,589

	Three Months Ended		Nine Months Ended	
	September 30, 2018		September 30, 2018	
	2018	2017	2018	2017
Change in Assets Under Management: (in millions)				
Beginning balance	\$121,584	\$121,053	\$123,930	\$120,801
Closed-end funds:				
Capital commitments/other ⁽²⁾	2,205	654	5,268	1,802
Distributions for a realization event/other ⁽³⁾	(1,478)	(2,160)	(5,561)	(8,036)
Change in uncalled capital commitments for funds entering or in liquidation ⁽⁴⁾	90	(198)	(142)	(51)
Foreign-currency translation	(41)	302	(266)	849
Change in market value ⁽⁵⁾	745	829	1,701	2,714
Change in applicable leverage	(81)	19	(137)	387
Open-end funds:				
Contributions	841	1,427	2,456	4,764
Redemptions	(1,745)	(2,209)	(5,436)	(7,050)
Foreign-currency translation	(49)	241	(241)	702
Change in market value ⁽⁵⁾	583	706	234	2,272
Evergreen funds:				
Contributions or new capital commitments ⁽⁶⁾	306	632	809	665
Redemptions or distributions ⁽⁷⁾	(205)	(138)	(636)	(420)
Foreign-currency translation	1	—	—	(1)
Change in market value ⁽⁵⁾	144	150	583	414
DoubleLine:				
Net change in DoubleLine	616	1,281	954	2,777
Ending balance	\$123,516	\$122,589	\$123,516	\$122,589

(1) DoubleLine AUM reflects our pro-rata portion (based on our 20% ownership stake) of DoubleLine's total AUM.

(2) These amounts include capital commitments, as well as the aggregate par value of collateral assets and principal cash related to new CLO formations.

(3) These amounts include distributions for a realization event, tax-related distributions, reductions in the par value of collateral assets and principal cash resulting from the repayment of debt as return of principal by CLOs, and recallable distributions at the end of the investment period.

(4)

The change in uncalled capital commitments generally reflects declines attributable to funds entering their liquidation periods, as well as capital contributions to funds in their liquidation periods for deferred purchase obligations or other reasons.

The change in market value reflects the change in NAV of our funds, less management fees and other fund (5) expenses, as well as changes in the aggregate par value of collateral assets and principal cash held by CLOs and other levered funds.

(6) These amounts include contributions and capital commitments, and for our publicly-traded BDCs, issuances of equity or debt capital.

(7) These amounts include redemptions and distributions, and for our publicly-traded BDCs, dividends, repurchases of equity capital or repayment of debt.

Management Fee-generating AUM

	As of		
	September 30, 2018	June 30, 2018	September 30, 2017
Management Fee-generating AUM: (in millions)			
Closed-end funds:			
Senior Loans	\$8,297	\$7,896	\$8,073
Other closed-end funds	28,054	28,754	31,953
Open-end funds	32,120	32,520	35,570
Evergreen funds	7,566	7,337	4,574
DoubleLine	24,656	24,040	23,074
Total	\$100,693	\$100,547	\$103,244

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Change in Management Fee-generating AUM:				
Beginning balance	\$100,547	\$101,600	\$104,287	\$100,064
Closed-end funds:				
Capital commitments to funds that pay fees based on committed capital/other ⁽¹⁾	465	925	465	968
Capital drawn by funds that pay fees based on drawn capital, NAV or cost basis	608	493	1,552	1,269
Change attributable to funds in liquidation ⁽²⁾	(1,052)	(1,350)	(3,628)	(3,197)
Change in uncalled capital commitments for funds entering or in liquidation that pay fees based on committed capital ⁽³⁾	(174)	—	(174)	—
Distributions by funds that pay fees based on NAV / other ⁽⁴⁾	(95)	(333)	(449)	(756)
Foreign-currency translation	(36)	236	(242)	720
Change in market value ⁽⁵⁾	63	45	115	167
Change in applicable leverage	(78)	19	(133)	361
Open-end funds:				
Contributions	791	1,407	2,355	4,618
Redemptions	(1,721)	(2,209)	(5,412)	(7,043)
Foreign-currency translation	(49)	241	(241)	702
Change in market value	579	702	230	2,259
Evergreen funds:				
Contributions or capital drawn by funds that pay fees based on drawn capital or NAV ⁽⁶⁾	302	234	999	411
Redemptions or distributions ⁽⁷⁾	(206)	(187)	(558)	(456)
Change in market value ⁽⁵⁾	133	140	573	380
DoubleLine:				
Net change in DoubleLine	616	1,281	954	2,777
Ending balance	\$100,693	\$103,244	\$100,693	\$103,244

- (1) These amounts include capital commitments to funds that pay fees based on committed capital, as well as the aggregate par value of collateral assets and principal cash related to new CLO formations. These amounts include the change for funds that pay fees based on the lesser of funded capital or cost basis during the liquidation period, as well as recallable distributions at the end of the investment period. For most closed-end funds, management fees are charged during the liquidation period on the lesser of (a) total funded capital or (b) the cost basis of assets remaining in the fund, with the cost basis of assets generally calculated by excluding cash balances. Thus, changes in fee basis during the liquidation period are not dependent on distributions made from the fund; rather, they are tied to the cost basis of the fund's investments, which typically declines as the fund sells assets. The change in uncalled capital commitments reflects declines attributable to funds entering their liquidation periods, as well as capital contributions to funds in their liquidation periods for deferred purchase obligations or other reasons.
- (2) These amounts include distributions by funds that pay fees based on NAV, as well as reductions in the par value of collateral assets and principal cash resulting from the repayment of debt as return of principal by CLOs. The change in market value reflects certain funds that pay management fees based on NAV and leverage, as applicable, as well as changes in the aggregate par value of collateral assets and principal cash held by CLOs and other levered funds.
- (3) These amounts include contributions and capital commitments, and for our publicly-traded BDCs, issuances of equity or debt capital.
- (4) These amounts include redemptions and distributions, and for our publicly-traded BDCs, dividends, repurchases of equity capital or repayment of debt.

A reconciliation of AUM to management fee-generating AUM is set forth below:

	As of		
	September 30, 2018	June 30, 2018	September 30, 2017
Reconciliation of AUM to Management Fee-generating AUM:	(in millions)		
Assets under management	\$123,516	\$121,584	\$122,589
Difference between assets under management and committed capital or the lesser of funded capital or cost basis for applicable closed-end funds ⁽¹⁾	(3,040)	(2,326)	(2,920)
Undrawn capital commitments to closed-end funds that have not yet commenced their investment periods	(10,098)	(10,092)	(8,675)
Undrawn capital commitments to funds for which management fees are based on drawn capital, NAV or cost basis	(5,263)	(4,042)	(3,714)
Oaktree's general partner investments in management fee-generating funds	(1,798)	(1,724)	(1,883)
Funds that pay no management fees ⁽²⁾	(2,624)	(2,853)	(2,153)
Management fee-generating assets under management	\$100,693	\$100,547	\$103,244

- (1) This difference is not applicable to closed-end funds that pay management fees based on NAV or leverage. This includes funds that are no longer paying management fees, co-investments that pay no management fees,
- (2) certain accounts that pay administrative fees intended to offset Oaktree's costs related to the accounts and CLOs in the warehouse stage that pay no management fees.

The period-end weighted average annual management fee rates applicable to the closed-end, open-end and evergreen management fee-generating AUM balances above are set forth below.

Weighted Average Annual Management Fee Rates:	As of		September 30, 2017
	September 30, 2018	June 30, 2018	
Closed-end funds:			
Senior Loans	0.50 %	0.50 %	0.50 %
Other closed-end funds	1.46	1.47	1.49
Open-end funds	0.45	0.45	0.46
Evergreen funds ⁽¹⁾	1.19	1.20	1.17
All Oaktree funds ⁽²⁾	0.90	0.91	0.91

(1) Fee rates reflect the applicable asset-based management fee rates, exclusive of quarterly incentive fees on investment income that are included in management fees.

(2) Excludes DoubleLine funds.

Incentive-creating Assets Under Management

Incentive-creating AUM is set forth below. The portion of incentive-creating AUM generating incentives at the fund level was \$21.1 billion as of September 30, 2018 and \$21.0 billion as of both June 30, 2018 and September 30, 2017. Incentive-creating AUM does not include undrawn capital commitments.

	As of		
	September 30, 2018	June 30, 2018	September 30, 2017
Incentive-creating AUM: (in millions)			
Closed-end funds	\$26,801	\$26,677	\$27,555
Evergreen funds	6,236	6,006	3,465
DoubleLine	589	608	544
Total	\$33,626	\$33,291	\$31,564

Third Quarter Ended September 30, 2018

AUM increased \$1.9 billion, or 1.6%, to \$123.5 billion as of September 30, 2018, from \$121.6 billion as of June 30, 2018. The increase primarily reflected \$2.2 billion in new capital commitments to closed-end funds, \$1.5 billion in market-value gains and \$0.6 billion attributable to DoubleLine, partially offset by \$1.5 billion of distributions to closed-end fund investors and \$0.9 billion of net outflows from open-end funds. Commitments to closed-end funds included \$0.7 billion for our Middle Market Direct Lending strategy, \$0.5 billion for Oaktree Special Situations Fund II ("SSF II") and \$0.4 billion for our Emerging Markets Debt strategy.

Management fee-generating AUM, a forward-looking metric, increased \$0.2 billion, or 0.2%, to \$100.7 billion as of September 30, 2018, from \$100.5 billion as of June 30, 2018. The increase primarily reflected \$0.8 billion in market-value gains, \$0.6 billion attributable to DoubleLine and \$0.6 billion from capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, largely offset by \$1.2 billion attributable to closed-end funds in liquidation and \$0.9 billion of net outflows from open-end funds.

Incentive-creating AUM increased \$0.3 billion, or 0.9%, to \$33.6 billion as of September 30, 2018, from \$33.3 billion as of June 30, 2018. The increase reflected an aggregate \$2.0 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains, partially offset by an aggregate \$1.7 billion decline primarily attributable to distributions by closed-end funds.

Third Quarter Ended September 30, 2017

AUM increased \$1.5 billion, or 1.2%, to \$122.6 billion as of September 30, 2017, from \$121.1 billion as of June 30, 2017. The increase primarily reflected \$1.7 billion in market-value gains, \$1.3 billion in new capital commitments to closed-end and evergreen funds, \$1.3 billion attributable to DoubleLine, and \$0.5 billion of

favorable foreign-currency translation, largely offset by \$2.2 billion of distributions to closed-end fund investors and \$0.8 billion of net outflows from open-end funds. Commitments to closed-end and evergreen funds included \$0.4 billion for our Emerging Markets Debt strategy and \$0.3 billion to our European Private Debt strategy.

Management fee-generating AUM, a forward-looking metric, increased \$1.6 billion, or 1.6%, to \$103.2 billion as of September 30, 2017, from \$101.6 billion as of June 30, 2017. The increase primarily reflected an aggregate \$1.4 billion increase from the start of the investment period for EPF IV in July 2017 and capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, \$1.3 billion attributable to DoubleLine, and \$0.9 billion in market-value gains. These increases were partially offset by \$1.4 billion attributable to closed-end funds in liquidation and \$0.8 billion of net outflows from open-end funds.

Incentive-creating AUM increased \$0.3 billion, or 1.0%, to \$31.6 billion as of September 30, 2017, from \$31.3 billion as of June 30, 2017, reflecting an aggregate \$2.3 billion principally from drawdowns or contributions by closed-end and evergreen funds and market-value gains, partially offset by an aggregate \$2.0 billion decline primarily attributable to distributions by closed-end funds.

Nine Months Ended September 30, 2018

AUM decreased \$0.4 billion, or 0.3%, to \$123.5 billion as of September 30, 2018, from \$123.9 billion as of December 31, 2017. The decrease primarily reflected \$5.6 billion of distributions to closed-end fund investors, \$3.0 billion of net outflows from open-end funds and \$0.5 billion of unfavorable foreign-currency translation, largely offset by \$5.3 billion in new capital commitments to closed-end funds, \$2.5 billion in market-value gains and \$1.0 billion attributable to DoubleLine. Commitments to closed-end funds included \$1.2 billion for SSF II, \$1.1 billion for Oaktree Transportation Infrastructure Fund (“TIF”), \$0.9 billion to Oaktree Real Estate Debt Fund II, \$0.7 billion for our Middle Market Direct Lending strategy and \$0.5 billion for our Emerging Markets Debt strategy.

Management fee-generating AUM, a forward-looking metric, decreased \$3.6 billion, or 3.5%, to \$100.7 billion as of September 30, 2018, from \$104.3 billion as of December 31, 2017. The decrease primarily reflected \$3.6 billion attributable to closed-end funds in liquidation, \$3.1 billion of net outflows from open-end funds and \$0.5 billion of unfavorable foreign-currency translation, partially offset by \$1.6 billion from capital drawn by closed-end funds that pay fees based on drawn capital, NAV or cost basis, \$1.0 billion attributable to DoubleLine, \$0.9 billion in market-value gains and \$0.4 billion of net capital inflows to evergreen funds.

Incentive-creating AUM increased \$0.3 billion, or 0.9%, to \$33.6 billion as September 30, 2018, from \$33.3 billion as of December 31, 2017. The increase reflected an aggregate \$6.2 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains, partially offset by an aggregate \$5.9 billion decline primarily attributable to distributions by closed-end funds.

Nine Months Ended September 30, 2017

AUM increased \$1.8 billion, or 1.5%, to \$122.6 billion as of September 30, 2017, from \$120.8 billion as of December 31, 2016. The increase primarily reflected \$5.4 billion in market-value gains, \$2.8 billion attributable to DoubleLine, \$2.2 billion of capital commitments to closed-end funds and fee-generating leverage, and \$1.6 billion of favorable foreign-currency translation, partially offset by \$8.0 billion of distributions to closed-end fund investors and \$2.3 billion of net outflows from open-end funds.

Management fee-generating AUM, a forward-looking metric, increased \$3.1 billion, or 3.1%, to \$103.2 billion as of September 30, 2017, from \$100.1 billion as of December 31, 2016. The increase primarily reflected \$2.8 billion in market-value gains, \$2.8 billion attributable to DoubleLine, an aggregate \$2.6 billion increase from the start of the investment period for EPF IV in July 2017, capital drawn by funds that pay fees based on drawn capital, NAV or cost basis, and fee-generating leverage, and \$1.4 billion of favorable foreign-currency translation. These increases were partially offset by \$4.0 billion attributable to closed-end funds in liquidation and \$2.4 billion of net outflows from open-end funds.

Incentive-creating AUM decreased \$2.6 billion, or 7.6%, to \$31.6 billion as of September 30, 2017, from \$34.2 billion as of December 31, 2016, reflecting an aggregate \$8.3 billion decline primarily attributable to distributions by closed-end funds, partially offset by an aggregate \$5.7 billion in drawdowns or contributions by closed-end and evergreen funds and market-value gains.

Accrued Incentives (Fund Level) and Incentives Created (Fund Level)

Accrued incentives (fund level), gross and net of incentive income compensation expense, as well as changes in accrued incentives (fund level), are set forth below.

	As of or for the Three Months Ended September 30, 2018		As of or for the Nine Months Ended September 30, 2018	
	2017		2017	
Accrued Incentives (Fund Level):	(in thousands)			
Beginning balance	\$1,863,932	\$1,779,578	\$1,920,339	\$2,014,097
Incentives created (fund level):				
Closed-end funds	115,659	122,273	315,815	471,501
Evergreen funds	18,787	12,542	49,033	33,434
DoubleLine	520	780	620	3,479
Total incentives created (fund level)	134,966	135,595	365,468	508,414
Less: incentive income recognized by us	(74,488)	(54,508)	(361,397)	(661,846)
Ending balance	\$1,924,410	\$1,860,665	\$1,924,410	\$1,860,665
Accrued incentives (fund level), net of associated incentive income compensation expense	\$914,886	\$899,891	\$914,886	\$899,891

As of September 30, 2018, June 30, 2018 and September 31, 2017, the portion of net accrued incentives (fund level) represented by funds that were currently paying incentives was \$329.9 million (or 36%), \$214.6 million (24%) and \$274.1 million (30%), respectively, with the remainder arising from funds that as of that date were not at the stage of their cash distribution waterfall where Oaktree was entitled to receive incentives, other than possibly tax-related distributions.

As of September 30, 2018, \$720.8 million, or 79%, of the net accrued incentives (fund level) was in evergreen or closed-end funds in their liquidation period, and approximately 21% of the assets underlying total net accrued incentives (fund level) were Level I or Level II securities. Please see note 2 for a discussion of the fair-value hierarchy level established by GAAP.

Third Quarters Ended September 30, 2018 and 2017

Incentives created (fund level) was \$135.0 million for the third quarter of 2018, primarily reflecting \$53.4 million of incentives created (fund level) from Private Equity funds, \$38.9 million from Credit funds and \$35.5 million from Real Asset funds.

Incentives created (fund level) was \$135.6 million for the third quarter of 2017, primarily reflecting \$54.0 million of incentives created (fund level) from Credit funds, \$39.5 million from Real Asset funds and \$36.7 million from Private Equity funds.

Nine Months Ended September 30, 2018 and 2017

Incentives created (fund level) was \$365.5 million for the first nine months of 2018, primarily reflecting \$174.3 million of incentives created (fund level) from Credit funds, \$104.6 million from Private Equity funds and \$79.1 million from Real Asset funds.

Incentives created (fund level) was \$508.4 million for the first nine months of 2017, primarily reflecting \$244.2 million of incentives created (fund level) from Credit funds, \$168.7 million from Private Equity funds and \$82.5 million from Real Asset funds.

Uncalled Capital Commitments

As of September 30, 2018, June 30, 2018, and September 30, 2017, uncalled capital commitments were \$21.4 billion, \$20.3 billion and \$21.2 billion, respectively. Invested capital during the quarter and 12 months ended September 30, 2018 aggregated \$2.8 billion and \$8.7 billion, respectively, as compared with \$1.9 billion and \$7.4 billion for the comparable prior-year periods.

Non-GAAP Results

Our business is comprised of one segment, our investment management business, which consists of the investment management services that we provide to our clients. Management makes operating decisions and assesses the performance of our business based on financial data that are presented without the consolidation of our funds. The data most important to management in assessing our performance are adjusted net income, distributable earnings and fee-related earnings, each for both the Operating Group and per Class A unit. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are presented below under “—Reconciliation of GAAP to Non-GAAP Results.”

Adjusted Net Income

The following schedules set forth the components of adjusted net income:

Adjusted Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenues:				
Management fees	\$197,056	\$203,440	\$595,938	\$607,361
Incentive income	74,488	54,508	361,397	661,846
Investment income	48,622	46,808	87,512	131,098
Total adjusted revenues	\$320,166	\$304,756	\$1,044,847	\$1,400,305

Adjusted Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Expenses:				
Compensation and benefits	\$(100,589)	\$(95,691)	\$(309,001)	\$(297,097)
Equity-based compensation	(13,649)	(14,691)	(40,788)	(40,971)
Incentive income compensation	(31,508)	(26,362)	(182,934)	(369,480)
General and administrative	(37,963)	(29,134)	(114,508)	(94,042)
Depreciation and amortization	(2,218)	(2,036)	(6,781)	(6,863)
Total adjusted expenses	\$(185,927)	\$(167,914)	\$(654,012)	\$(808,453)

Adjusted Net Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Interest expense, net of interest income ⁽¹⁾	\$(2,197)	\$(6,280)	\$(8,006)	\$(19,795)
Other income, net	5,469	874	6,540	2,197
Adjusted net income ⁽²⁾	\$137,511	\$131,436	\$389,369	\$574,254

Interest income was \$4.0 million and \$9.9 million for the three and nine months ended September 30, 2018, (1)respectively, and \$2.7 million and \$6.8 million for the three and nine months ended September 30, 2017, respectively.

(2) This reflects the sum of total adjusted revenues, adjusted expenses, net interest expense and other income, net.

Third Quarter Ended September 30, 2018 Compared to the Third Quarter Ended September 30, 2017

Adjusted Revenues

Management Fees

A summary of management fees is set forth below:

	Three Months Ended September 30,	
	2018	2017
	(in thousands)	
Management fees:		
Closed-end funds	\$ 114,236	\$ 131,612
Open-end funds	36,201	40,882
Evergreen funds	28,269	14,121
DoubleLine	18,350	16,825
Total management fees	\$ 197,056	\$ 203,440

Management fees decreased \$6.3 million, or 3.1%, to \$197.1 million for the third quarter of 2018, from \$203.4 million for the third quarter of 2017, for the reasons described below.

Closed-end funds. Management fees attributable to closed-end funds decreased \$17.4 million, or 13.2%, to \$114.2 million for the third quarter of 2018, from \$131.6 million for the third quarter of 2017. The decrease reflected an aggregate decline of \$22.5 million primarily attributable to closed-end funds in liquidation, partially offset by an aggregate increase of \$5.1 million principally from closed-end funds that pay management fees based on drawn capital, NAV or cost basis.

Open-end funds. Management fees attributable to open-end funds decreased \$4.7 million, or 11.5%, to \$36.2 million for the third quarter of 2018, from \$40.9 million for the third quarter of 2017. The decrease was primarily attributable to net outflows, partially offset by market-value gains.

Evergreen funds. Management fees attributable to evergreen funds increased \$14.2 million, or 100.7%, to \$28.3 million for the third quarter of 2018, from \$14.1 million for the third quarter of 2017, primarily reflecting the BDC acquisition.

DoubleLine. Management fees attributable to DoubleLine increased \$1.6 million, or 9.5%, to \$18.4 million for the third quarter of 2018, from \$16.8 million for the third quarter of 2017, primarily reflecting growth in AUM.

Incentive Income

A summary of incentive income is set forth below:

	Three Months Ended September 30,	
	2018	2017
	(in thousands)	
Incentive Income:		
Closed-end funds	\$ 73,576	\$ 53,545
Evergreen funds	392	183
DoubleLine	520	780
Total	\$ 74,488	\$ 54,508

Incentive income increased \$20.0 million, or 36.7%, to \$74.5 million for the third quarter of 2018, from \$54.5 million for the third quarter of 2017. The third quarter of 2018 included \$45.8 million from OCM Opportunities Fund VIIb and \$14.0 million from Emerging Markets Debt funds.

Investment Income

A summary of investment income is set forth below:

	Three Months Ended September 30,	
	2018	2017
	(in thousands)	

Oaktree funds:

Credit	\$21,537	\$26,199
Private Equity	7,063	3,985
Real Assets	4,031	6,063
Listed Equities	2,255	8,312
Non-Oaktree	13,736	2,249

Total investment income \$48,622 \$46,808

Investment income increased \$1.8 million, or 3.8%, to \$48.6 million for the third quarter of 2018, from \$46.8 million for the third quarter of 2017. The increase primarily reflected higher returns on our Private Equity and non-Oaktree investments, largely offset by lower returns on our Credit, Real Assets and Listed Equities investments.

Adjusted Expenses

Compensation and Benefits

Compensation and benefits expense increased \$4.9 million, or 5.1%, to \$100.6 million for the third quarter of 2018, from \$95.7 million for the third quarter of 2017, primarily reflecting higher expenses relating to the infrastructure investing team that Oaktree acquired in 2014. In 2017, a portion of the expenses attributable to that team were paid for by a legacy Highstar fund. That fund stopped paying management fees in the fourth quarter of 2017, and thereafter Oaktree became responsible for all of the expenses of the infrastructure team.

Equity-based Compensation

Equity-based compensation expense decreased \$1.1 million, or 7.5%, to \$13.6 million for the third quarter of 2018, from \$14.7 million for the third quarter of 2017.

Incentive Income Compensation

Incentive income compensation expense increased \$5.1 million, or 19.3%, to \$31.5 million for the third quarter of 2018, from \$26.4 million for the third quarter of 2017, primarily reflecting the growth in incentive income, partially offset by a lower overall compensation percentage in the third quarter of 2018.

General and Administrative

General and administrative expense increased \$8.9 million, or 30.6%, to \$38.0 million for the third quarter of 2018, from \$29.1 million for the third quarter of 2017. The increase primarily reflected higher expenses relating to the infrastructure investing team, placement costs associated with fundraising for closed-end and evergreen funds, professional fees and other general operating items.

Depreciation and Amortization

Depreciation and amortization expense increased \$0.2 million, or 10.0%, to \$2.2 million for the third quarter of 2018, from \$2.0 million for the third quarter of 2017.

Interest Expense, Net of Interest Income

Interest expense, net decreased \$4.1 million, or 65.1%, to \$2.2 million for the third quarter of 2018, from \$6.3 million for the third quarter of 2017. The decline reflected the refinancing of our senior notes in the fourth quarter of 2017 and higher interest income.

Other Income, Net

Other income, net increased \$4.6 million, to \$5.5 million for the third quarter of 2018, from \$0.9 million for the third quarter of 2017. The increase primarily reflected gains associated with non-operating corporate activities in the third quarter of 2018.

Adjusted Net Income

ANI increased \$6.1 million, or 4.6%, to \$137.5 million for the third quarter of 2018, from \$131.4 million for the third quarter of 2017, primarily reflecting \$14.8 million in higher incentive income, net of incentive income compensation expense ("net incentive income"), \$4.6 million in higher other income, \$4.1 million in lower net interest expense and \$1.8 million in higher investment income, partially offset by \$20.3 million in lower fee-related earnings. The portion of ANI attributable to our Class A units was \$55.6 million, or \$0.78 per unit, and \$43.3 million, or \$0.67 per unit, for the third quarters of 2018 and 2017, respectively.

Income Taxes-Class A

Income taxes decreased \$6.0 million, or 55.6%, to \$4.8 million for the third quarter of 2018, from \$10.8 million for the third quarter of 2017. The decrease primarily reflected a lower effective tax rate for the third quarter of 2018, in part due to the Tax Act that was enacted in December 2017. The effective tax rates applied to ANI for the third quarters of 2018 and 2017 were 8% and 20%, respectively, resulting from full-year effective rates of 9% and 12%, respectively. The effective tax rate used for interim fiscal quarters is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and often vary significantly within or between years. In general, the annual effective tax rate increases as the proportion of ANI arising from fee-related earnings and certain incentive and investment income rises, and vice versa.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Adjusted Revenues

Management Fees

A summary of management fees is set forth below:

	Nine Months Ended September 30, 2018 2017 (in thousands)	
Management fees:		
Closed-end funds	\$352,718	\$395,215
Open-end funds	111,399	121,507
Evergreen funds	77,758	41,772
DoubleLine	54,063	48,867
Total management fees	\$595,938	\$607,361

Management fees decreased \$11.5 million, or 1.9%, to \$595.9 million for the first nine months of 2018, from \$607.4 million for the first nine months of 2017, for the reasons described below.

Closed-end funds. Management fees attributable to closed-end funds decreased \$42.5 million, or 10.8%, to \$352.7 million for the first nine months of 2018, from \$395.2 million for the first nine months of 2017. The decrease reflected an aggregate decline of \$65.5 million primarily attributable to closed-end funds in liquidation, partially offset by an aggregate increase of \$23.0 million principally from the start of the investment period for EPF IV in July 2017 and closed-end funds that pay management fees based on drawn capital, NAV or cost basis.

Open-end funds. Management fees attributable to open-end funds decreased \$10.1 million, or 8.3%, to \$111.4 million for the first nine months of 2018, from \$121.5 million for the first nine months of 2017. The decrease was primarily attributable to net outflows, partially offset by market-value gains.

Evergreen funds. Management fees attributable to evergreen funds increased \$36.0 million, or 86.1%, to \$77.8 million for the first nine months of 2018, from \$41.8 million for the first nine months of 2017, primarily reflecting the BDC acquisition.

DoubleLine. Management fees attributable to DoubleLine increased \$5.2 million, or 10.6%, to \$54.1 million for the first nine months of 2018, from \$48.9 million for the first nine months of 2017, primarily reflecting growth in AUM.

Incentive Income

A summary of incentive income is set forth below:

	Nine Months Ended	
	September 30,	
	2018	2017
	(in thousands)	

Incentive Income:

Closed-end funds	\$357,029	\$653,865
Evergreen funds	3,748	4,502
DoubleLine	620	3,479
Total	\$361,397	\$661,846

Incentive income decreased \$300.4 million, or 45.4%, to \$361.4 million for the first nine months of 2018, from \$661.8 million for the first nine months of 2017. The decrease was primarily attributable to lower incentive income from POF IV, which started paying incentive income in the second quarter of 2017. Tax-related incentive income represented \$117.7 million and \$81.2 million for the first nine months of 2018 and 2017, respectively.

Investment Income

A summary of investment income is set forth below:

	Nine Months Ended	
	September 30,	
	2018	2017
	(in thousands)	

Oaktree funds:

Credit	\$59,338	\$76,545
Private Equity	14,515	15,055
Real Assets	17,683	14,519
Listed Equities	(19,829)	18,738
Non-Oaktree	15,805	6,241

Total investment income \$87,512 \$131,098

Investment income decreased \$43.6 million, or 33.3%, to \$87.5 million for the first nine months of 2018, from \$131.1 million for the first nine months of 2017. The decrease primarily reflected lower returns on our Credit and Listed Equities investments, partially offset by our non-Oaktree investments.

Adjusted Expenses

Compensation and Benefits

Compensation and benefits expense increased \$11.9 million, or 4.0%, to \$309.0 million for the first nine months of 2018, from \$297.1 million for the first nine months of 2017. The increase primarily reflected expenses relating to the infrastructure investing team that Oaktree acquired in 2014.

Equity-based Compensation

Equity-based compensation expense decreased \$0.2 million, or 0.5%, to \$40.8 million for the first nine months of 2018, from \$41.0 million for the first nine months of 2017.

Incentive Income Compensation

Incentive income compensation expense decreased \$186.6 million, or 50.5%, to \$182.9 million for the first nine months of 2018, from \$369.5 million for the first nine months of 2017, primarily reflecting the decline in incentive income.

General and Administrative

General and administrative expense increased \$20.5 million, or 21.8%, to \$114.5 million for the first nine months of 2018, from \$94.0 million for the first nine months of 2017. The increase primarily reflected higher expenses relating to the infrastructure investing team, placement costs associated with fundraising for closed-end and evergreen funds, new product development costs and other general operating items.

Depreciation and Amortization

Depreciation and amortization expense decreased \$0.1 million, or 1.4%, to \$6.8 million for the first nine months of 2018, from \$6.9 million for the first nine months of 2017.

Interest Expense, Net of Interest Income

Interest expense, net decreased \$11.8 million, or 59.6%, to \$8.0 million for the first nine months of 2018, from \$19.8 million for the first nine months of 2017. The decline reflected the refinancing of our senior notes in the fourth quarter of 2017 and higher interest income.

Other Income, Net

Other income, net increased \$4.3 million, to \$6.5 million for the first nine months of 2018, from \$2.2 million for the first nine months of 2017. The increase primarily reflected gains associated with non-operating corporate activities in the current-year period.

Adjusted Net Income

ANI decreased \$184.9 million, or 32.2%, to \$389.4 million for the first nine months of 2018, from \$574.3 million for the first nine months of 2017. The decrease primarily reflected declines of \$113.9 million in net incentive income, \$43.6 million in investment income and \$43.8 million in fee-related earnings, partially offset by an \$11.8 million decrease in net interest expense. The portion of ANI attributable to our Class A units was \$154.6 million, or \$2.20 per unit, and \$208.2 million, or \$3.26 per unit, for the first nine months of 2018 and 2017, respectively.

Income Taxes-Class A

Income taxes decreased \$10.5 million, or 38.7%, to \$16.6 million for the first nine months of 2018, from \$27.1 million for the first nine months of 2017. The decrease primarily reflected lower adjusted net income-Class A before income taxes and a lower effective tax rate for the first nine months of 2018, in part due to the Tax Act. The effective tax rates applied to ANI for the first nine months of 2018 and 2017 were 10% and 12%, respectively. The effective tax rate used for interim fiscal quarters is based on an estimated full-year effective tax rate on income that can be reliably forecasted, combined with tax expense in the current period on incentive income and any other income that cannot be reliably estimated. We generally expect variability in tax rates between periods because the effective tax rate is a function of the mix of income and other factors, each of which can have a material impact on the particular period's income tax expense and often vary significantly within or between years. In general, the annual effective tax rate increases as the proportion of ANI arising from fee-related earnings and certain incentive and investment income rises, and vice versa.

Distributable Earnings

Distributable earnings are set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Distributable Earnings:	(in thousands)			
Adjusted net income	\$ 137,511	\$ 131,436	\$ 389,369	\$ 574,254
Investment income	(48,622)	(46,808)	(87,512)	(131,098)
Realized investment income proceeds ⁽¹⁾	48,278	24,919	126,806	91,264
Equity-based compensation	13,649	14,691	40,788	40,971
Other (income) expense, net ⁽²⁾	(2,745)	—	(8,235)	—
Operating Group income taxes	(222)	(5,208)	(5,108)	(7,850)
Distributable earnings	\$ 147,849	\$ 119,030	\$ 456,108	\$ 567,541

Amounts reflect the portion of income or loss on distributions received from funds and companies. In general, the income or loss component of a fund distribution is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if the (1) distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends. Additionally, any impairment charges on our CLO investments included in ANI are, for distributable earnings purposes, amortized over the remaining investment period of the respective CLO to align with the timing of expected cash flows.

For distributable earnings purposes, the \$22 million make-whole premium charge that was included in ANI in the (2) fourth quarter of 2017 in connection with the early repayment of our 2019 Notes is amortized through the original maturity date of December 2019.

Third Quarter Ended September 30, 2018 Compared to the Third Quarter Ended September 30, 2017

Distributable earnings increased \$28.8 million, or 24.2%, to \$147.8 million for the third quarter of 2018, from \$119.0 million for the third quarter of 2017, primarily reflecting increases of \$23.4 million in realized investment income proceeds, \$14.8 million in net incentive income, \$4.6 million in other income and a \$4.1 million decrease in net interest expense, partially offset by a \$20.3 million decline in fee-related earnings. For the third quarters of 2018 and 2017, realized investment income proceeds totaled \$48.3 million and \$24.9 million, respectively. The portion of distributable earnings attributable to our Class A units was \$0.88 and \$0.74 per unit for the third quarters of 2018 and 2017, respectively, reflecting distributable earnings per Operating Group unit of \$0.94 and \$0.76, respectively, less preferred unit distributions and costs borne by Class A unitholders for professional fees and other expenses, cash taxes attributable to the Intermediate Holding Companies, and amounts payable pursuant to the tax receivable agreement.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Distributable earnings decreased \$111.4 million, or 19.6%, to \$456.1 million for the first nine months of 2018, from \$567.5 million for the first nine months of 2017, primarily reflecting declines of \$113.9 million in net incentive income and \$43.8 million in fee-related earnings, partially offset by a \$35.5 million increase in realized investment income proceeds and an \$11.8 million decrease in net interest expense. For the first nine months of 2018 and 2017, realized investment income proceeds totaled \$126.8 million and \$91.3 million, respectively. The portion of distributable earnings attributable to our Class A units was \$2.74 and \$3.28 per unit for the first nine months of 2018 and 2017, respectively, reflecting distributable earnings per Operating Group unit of \$2.91 and \$3.65, respectively.

Fee-related Earnings

Third Quarter Ended September 30, 2018 Compared to the Third Quarter Ended September 30, 2017

Fee-related earnings decreased \$20.3 million, or 26.5%, to \$56.3 million for the third quarter of 2018, from \$76.6 million for the third quarter of 2017, primarily reflecting \$6.3 million in lower management fees, \$4.9 million in higher compensation and benefits expense and \$8.9 million in higher general and administrative expense. The portion of fee-related earnings attributable to our Class A units was \$0.34 and \$0.42 per unit for the third quarters of 2018 and 2017, respectively.

The effective tax rates applicable to fee-related earnings for the third quarters of 2018 and 2017 were 5% and 14%, respectively, resulting from full-year effective tax rates of 6% and 15%, respectively. The rate used for interim fiscal periods is based on the estimated full-year effective tax rate, which is subject to change as the year progresses. In general, the annual effective tax rate increases as annual fee-related earnings increase, and vice versa.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Fee-related earnings decreased \$43.8 million, or 20.9%, to \$165.6 million for the first nine months of 2018, from \$209.4 million for the first nine months of 2017, primarily reflecting \$11.5 million in lower management fees, \$11.9 million in higher compensation and benefits expense, and \$20.5 million in higher general and administrative expense. The portion of fee-related earnings attributable to our Class A units was \$0.99 and \$1.13 per unit for the first nine months of 2018 and 2017, respectively.

The effective tax rates applicable to fee-related earnings for the first nine months of 2018 and 2017 were 5% and 15%, respectively.

Reconciliation of GAAP to Non-GAAP Results

The following table reconciles net income attributable to Oaktree Capital Group, LLC Class A unitholders to adjusted net income, fee-related earnings and distributable earnings.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
	(in thousands)			
Net income attributable to OCG Class A unitholders	\$52,750	\$45,841	\$136,603	\$218,080
Preferred unit distributions	3,909	—	3,909	—
Incentive income ⁽¹⁾	7,935	—	107,581	41,954
Incentive income compensation ⁽¹⁾	(4,214)	) —	(55,607)	) (41,954)
Investment income ⁽²⁾	(3,174)	) (1,983)	) (7,055)	) (24,630)
Equity-based compensation ⁽³⁾	1,098	1,137	3,826	4,558
Foreign-currency hedging ⁽⁴⁾	(247)	) (833)	) (3,110)	) (960)
Acquisition-related items ⁽⁵⁾	1,703	(3,919)	443	(1,456)
Income taxes ⁽⁶⁾	6,568	13,857	17,832	31,700
Non-Operating Group (income) expenses ⁽⁷⁾	321	62	629	549
Non-controlling interests ⁽⁷⁾	70,862	77,274	184,318	346,413
Adjusted net income ⁽¹⁰⁾	137,511	131,436	389,369	574,254
Incentive income	(74,488)	) (54,508)	) (361,397)	) (661,846)
Incentive income compensation	31,508	26,362	182,934	369,480
Investment income	(48,622)	) (46,808)	) (87,512)	) (131,098)
Equity-based compensation ⁽⁸⁾	13,649	14,691	40,788	40,971
Interest expense, net of interest income	2,197	6,280	8,006	19,795
Other (income) expense, net	(5,469)	) (874)	) (6,540)	) (2,197)
Fee-related earnings ⁽¹⁰⁾	56,286	76,579	165,648	209,359
Incentive income	74,488	54,508	361,397	661,846
Incentive income compensation	(31,508)	) (26,362)	) (182,934)	) (369,480)
Realized investment income proceeds ⁽⁹⁾	48,278	24,919	126,806	91,264
Interest expense, net of interest income	(2,197)	) (6,280)	) (8,006)	) (19,795)
Other (income) expense, net	2,724	874	(1,695)	2,197
Operating Group income taxes	(222)	) (5,208)	) (5,108)	) (7,850)
Distributable earnings ⁽¹⁰⁾	\$147,849	\$119,030	\$456,108	\$567,541

(1) This adjustment adds back the effect of timing differences associated with the recognition of incentive income and incentive income compensation expense between GAAP and adjusted net income.

- (2) This adjustment adds back the effect of differences in the recognition of investment income related to corporate investments in CLOs between GAAP and adjusted net income.

- (3) This adjustment adds back the effect of equity-based compensation expense related to unit grants made before our initial public offering, which is excluded from adjusted net income because it is a non-cash charge that does not affect our financial position.

- (4) This adjustment adds back the effect of timing differences associated with the recognition of unrealized gains and losses related to foreign-currency hedging between GAAP and adjusted net income.

- (5) This adjustment adds back the effect of acquisition-related items associated with the amortization of intangibles and changes in the contingent consideration liability, which are excluded from adjusted net income.

- (6) Because adjusted net income and fee-related earnings are pre-tax measures, this adjustment adds back the effect of income tax expense.

- (7) Because adjusted net income is calculated at the Operating Group level, this adjustment adds back the effect of items applicable to OCG, its Intermediate Holding Companies or non-controlling interests.

- (8) This adjustment adds back the effect of equity-based compensation expense related to unit grants made after our initial public offering, which is excluded from fee-related earnings and distributable earnings because it is non-cash in nature and does not impact our ability to fund our operations.

- (9) This adjustment reflects the portion of distributions received from funds characterized as realized investment income or loss. In general, the income or loss component of a distribution from a fund is calculated by multiplying the amount of the distribution by the ratio of our investment's undistributed income or loss to our remaining investment balance. In addition, if the distribution is made during the investment period, it is generally not reflected in distributable earnings until after the investment period ends.

- (10) Per Class A unit amounts are calculated to evaluate the portion of adjusted net income, fee-related earnings and distributable earnings attributable to Class A unitholders. Reconciliations of adjusted net income to adjusted net income-Class A, fee-related earnings to fee-related earnings-Class A and distributable earnings to distributable earnings-Class A are presented below.

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Weighted average number of Class A units outstanding	71,369	64,394	70,167	63,875
--	--------	--------	--------	--------

78

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	

The following tables reconcile GAAP consolidated financial data to non-GAAP data:

	As of or for the Three Months Ended September 30, 2018		
	Consolidated	Adjustments	ANI
	(in thousands)		
Management fees ⁽¹⁾	\$175,195	\$ 21,861	\$197,056
Incentive income ⁽¹⁾	66,032	8,456	74,488
Investment income ⁽¹⁾	58,196	(9,574)	48,622
Total expenses ⁽²⁾	(191,167)	5,240	(185,927)
Interest expense, net ⁽³⁾	(39,456)	37,259	(2,197)
Other income, net ⁽⁴⁾	5,629	(160)	5,469
Other income of consolidated funds ⁽⁵⁾	75,230	(75,230)	—
Income taxes	(6,568)	6,568	—
Net income attributable to non-controlling interests in consolidated funds	(14,427)	14,427	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(72,005)	72,005	—
Net income attributable to preferred unitholders	(3,909)	3,909	—
Net income attributable to OCG Class A unitholders / ANI	\$52,750	\$ 84,761	\$137,511

The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$18,350 to management fees and \$520 to incentive income, (c) for management fees, reclassifies \$46 of net losses related to foreign-currency hedging activities from general and administrative expense and \$2,835 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for ANI, (d) for incentive income, includes \$7,935 related to timing differences in the recognition of incentive income between net income attributable to OCG Class A unitholders and adjusted net income, and (e) for investment income, includes \$3,174 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.

The expense adjustment consists of (a) equity-based compensation expense of \$1,098 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$3,620, (c) expenses incurred by the Intermediate Holding Companies of \$239, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG Class A unitholders and adjusted net income of \$4,214, (e) acquisition-related items of \$1,703, (f) \$41 of net gains related to foreign-currency hedging activities, and (g) \$2,835 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for ANI.

(3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.

(4) The adjustment to other income (expense), net represents adjustments related to the reclassification of \$160 in net losses related to foreign-currency hedging activities from general and administrative expense.

The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

	As of or for the Three Months Ended September 30, 2017		
	Consolidated	Adjustments	ANI
	(in thousands)		
Management fees ⁽¹⁾	\$181,312	\$ 22,128	\$203,440
Incentive income ⁽¹⁾	53,720	788	54,508
Investment income ⁽¹⁾	51,061	(4,253)	46,808
Total expenses ⁽²⁾	(169,773)	1,859	(167,914)
Interest expense, net ⁽³⁾	(35,776)	29,496	(6,280)
Other income, net ⁽⁴⁾	5,418	(4,544)	874
Other income of consolidated funds ⁽⁵⁾	62,272	(62,272)	—
Income taxes	(13,857)	13,857	—
Net income attributable to non-controlling interests in consolidated funds	(9,990)	9,990	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(78,546)	78,546	—
Net income attributable to OCG Class A unitholders / ANI	\$45,841	\$ 85,595	\$131,436

The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$16,825 to management fees and \$780 to incentive income, (c) for management fees, reclassifies \$199 (1) of net gains related to foreign-currency hedging activities from general and administrative expense, and (d) for investment income, includes \$1,983 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.

The expense adjustment consists of (a) equity-based compensation expense of \$1,137 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$950, (c) expenses incurred by the Intermediate (2) Holding Companies of \$209, (d) acquisition-related items of \$3,919, (e) adjustments of \$4,357 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (f) \$870 of net gains related to foreign-currency hedging activities.

(3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.

The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$4,357 that are classified as other income under GAAP and as expenses for (4) ANI, and (b) the reclassification of \$187 in net losses related to foreign-currency hedging activities from general and administrative expense.

The adjustment to other income of consolidated funds removes interest, dividend and other investment income (5) attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

	As of or for the Nine Months Ended September 30, 2018		
	Consolidated	Adjustments	ANI
	(in thousands)		
Management fees ⁽¹⁾	\$538,706	\$ 57,232	\$595,938
Incentive income ⁽¹⁾	253,125	108,272	361,397
Investment income ⁽¹⁾	149,682	(62,170)	87,512
Total expenses ⁽²⁾	(626,809)	(27,203)	(654,012)
Interest expense, net ⁽³⁾	(115,504)	107,498	(8,006)
Other income, net ⁽⁴⁾	7,240	(700)	6,540
Other income of consolidated funds ⁽⁵⁾	157,641	(157,641)	—
Income taxes	(17,832)	17,832	—
Net income attributable to non-controlling interests in consolidated funds	(17,792)	17,792	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(187,945)	187,945	—
Net income attributable to preferred unitholders	(3,909)	3,909	—
Net income attributable to OCG Class A unitholders / ANI	\$136,603	\$ 252,766	\$389,369

The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$54,063 to management fees and \$620 to incentive income, (c) for management fees, reclassifies \$4,234 of net losses related to foreign-currency hedging activities from general and administrative expense and \$9,508 of expense reimbursements grossed-up for GAAP reporting, but netted with expenses for ANI, (d) for incentive income, includes \$107,581 related to timing differences in the recognition of incentive income between net income attributable to OCG Class A unitholders and adjusted net income, and (e) for investment income, includes \$7,055 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.

The expense adjustment consists of (a) equity-based compensation expense of \$3,826 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$11,819, (c) expenses incurred by the Intermediate Holding Companies of \$984, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG Class A unitholders and adjusted net income of \$55,607, (e) acquisition-related items of \$443, (f) \$1,824 of net losses related to foreign-currency hedging activities, and (g) \$9,508 of reimbursements grossed-up as revenues for GAAP reporting, but netted with expenses for ANI.

(3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.

(4) The adjustment to other income (expense), net represents adjustments related to the reclassification of \$700 in net losses related to foreign-currency hedging activities from general and administrative expense.

The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

	As of or for the Nine Months Ended September 30, 2017		
	Consolidated	Adjustments	ANI
	(in thousands)		
Management fees ⁽¹⁾	\$542,268	\$ 65,093	\$607,361
Incentive income ⁽¹⁾	616,404	45,442	661,846
Investment income ⁽¹⁾	150,618	(19,520)	131,098
Total expenses ⁽²⁾	(785,761)	(22,692)	(808,453)
Interest expense, net ⁽³⁾	(128,797)	109,002	(19,795)
Other income, net ⁽⁴⁾	14,979	(12,782)	2,197
Other income of consolidated funds ⁽⁵⁾	213,640	(213,640)	—
Income taxes	(31,700)	31,700	—
Net income attributable to non-controlling interests in consolidated funds	(23,543)	23,543	—
Net income attributable to non-controlling interests in consolidated subsidiaries	(350,028)	350,028	—
Net income attributable to OCG Class A unitholders / ANI	\$218,080	\$ 356,174	\$574,254

The adjustment (a) adds back amounts earned from the consolidated funds, (b) reclassifies DoubleLine investment income of \$48,867 to management fees and \$3,479 to incentive income, (c) for management fees, reclassifies \$2,298 of net gains related to foreign-currency hedging activities from general and administrative expense, (d) for incentive income, includes \$41,954 related to timing differences in the recognition of incentive income between net income attributable to OCG Class A unitholders and adjusted net income, and (e) for investment income, includes \$24,630 related to corporate investments in CLOs, which under GAAP are marked-to-market but for ANI accounted for at amortized cost, subject to impairment.

The expense adjustment consists of (a) equity-based compensation expense of \$4,558 related to unit grants made before our initial public offering, (b) consolidated fund expenses of \$5,782, (c) expenses incurred by the Intermediate Holding Companies of \$886, (d) the effect of timing differences in the recognition of incentive income compensation expense between net income attributable to OCG Class A unitholders and adjusted net income of \$41,954, (e) acquisition-related items of \$1,456, (f) adjustments of \$13,747 related to amounts received for contractually reimbursable costs that are classified as other income under GAAP and as expenses for ANI, and (g) \$4,250 of net gains related to foreign-currency hedging activities.

(3) The interest expense adjustment removes interest expense of the consolidated funds and reclassifies interest income from other income of consolidated funds.

(4) The adjustment to other income (expense), net represents adjustments related to (a) amounts received for contractually reimbursable costs of \$13,747 that are classified as other income under GAAP and as expenses for ANI, and (b) the reclassification of \$967 in net gains related to foreign-currency hedging activities from general and administrative expense.

(5) The adjustment to other income of consolidated funds removes interest, dividend and other investment income attributable to third-party investors in our consolidated funds, and reclassifies investment income to revenues and interest income to interest expense, net.

GAAP Statement of Financial Condition (Unaudited)

We manage our financial condition without the consolidation of our funds. Since our founding, we have managed our financial condition in a way that builds our capital base and maintains sufficient liquidity for known and anticipated uses of cash. We have issued debt largely to help fund our corporate investments in funds and companies, favoring longer terms to better match the multi-year nature of our typical investments. Our assets do not include accrued incentives (fund level), an off-balance sheet metric, nor do they reflect the fair-market value of our 20% interest in DoubleLine, which is carried at cost, as adjusted under the equity method of accounting.

The following table presents our unaudited condensed consolidating statement of financial condition:

	As of September 30, 2018			
	Oaktree and Operating Subsidiaries (in thousands)	Consolidated Funds	Eliminations	Consolidated
Assets:				
Cash and cash-equivalents	\$543,229	\$—	\$—	\$ 543,229
U.S. Treasury and other securities	469,800	—	—	469,800
Corporate investments	1,753,683	—	(698,332)	1,055,351
Deferred tax assets	243,059	—	—	243,059
Receivables and other assets	715,896	—	(22,966)	692,930
Assets of consolidated funds	—	6,425,680	—	6,425,680
Total assets	\$3,725,667	\$6,425,680	\$ (721,298)	\$ 9,430,049
Liabilities and Capital:				
Liabilities:				
Accounts payable and accrued expenses	\$371,741	\$—	\$—	\$ 371,741
Due to affiliates	192,267	—	—	192,267
Debt obligations	745,812	—	—	745,812
Liabilities of consolidated funds	—	5,025,502	(24,383)	5,001,119
Total liabilities	1,309,820	5,025,502	(24,383)	6,310,939
Non-controlling redeemable interests in consolidated funds	—	—	696,307	696,307
Capital:				
Capital attributable to OCG preferred unitholders	400,584	—	—	400,584
Capital attributable to OCG Class A unitholders	958,949	317,165	(317,165)	958,949
Non-controlling interest in consolidated subsidiaries	1,056,314	379,750	(379,750)	1,056,314
Non-controlling interest in consolidated funds	—	703,263	(696,307)	6,956
Total capital	2,415,847	1,400,178	(1,393,222)	2,422,803
Total liabilities and capital	\$3,725,667	\$6,425,680	\$ (721,298)	\$ 9,430,049

Corporate Investments

A summary of corporate investments is set forth below:

	As of September 30, 2018 (in thousands)	June 30, 2018	September 30, 2017
Oaktree funds:			
Credit	\$ 1,026,207	\$ 925,539	\$ 949,174
Private Equity	296,224	299,961	250,244
Real Assets	239,208	189,109	133,129
Listed Equities	94,258	117,939	139,628
Non-Oaktree	63,936	62,037	118,504
Total corporate investments – Non-GAAP	1,719,833	1,594,585	1,590,679
Adjustments ⁽¹⁾	33,850	29,010	17,403
Total corporate investments – Oaktree and operating subsidiaries	1,753,683	1,623,595	1,608,082
Eliminations	(698,332)	(611,749)	(553,095)
Total corporate investments – Consolidated	\$ 1,055,351	\$ 1,011,846	\$ 1,054,987

(1) This adjusts CLO investments carried at amortized cost to fair value for GAAP reporting.

Liquidity and Capital Resources

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our funds and the effect of normal changes in short-term assets and liabilities. Our primary cash flow activities on an unconsolidated basis involve (a) generating cash flow from operations, (b) generating income from investment activities, including strategic investments in certain third parties, (c) funding capital commitments that we have made to our funds, (d) funding our growth initiatives, (e) distributing cash flow to our Class A and OCGH unitholders, (f) borrowings, interest payments and repayments under credit agreements, our senior notes and other borrowing arrangements, and (g) issuances of, and distributions made on, our preferred units. As of September 30, 2018, Oaktree and its operating subsidiaries had \$1.0 billion of cash and U.S. Treasury and other securities, and \$746 million in outstanding debt, which included no borrowings outstanding against its \$500 million revolving credit facility. Our investments in funds and companies on a non-GAAP basis had a carrying value of \$1.7 billion as of September 30, 2018.

Ongoing sources of cash include (a) management fees, which are collected monthly or quarterly, (b) incentive income, which is volatile and largely unpredictable as to amount and timing, and (c) distributions stemming from our corporate investments in funds and companies. As of September 30, 2018, corporate investments of \$1.7 billion included unrealized investment income proceeds of \$353 million, of which \$147 million was in closed-end funds in their liquidation period. We primarily use cash flow from operations and distributions from our corporate investments to pay compensation and related expenses, general and administrative expenses, income taxes, debt service, capital expenditures and distributions. This same cash flow, together with proceeds from equity and debt issuances, is also used to fund corporate investments, fixed assets and other capital items. If cash flow from operations was insufficient to fund distributions, we may suspend paying such distributions.

We use distributable earnings, which is derived from ANI, to assess performance and assist in the determination of equity distributions from the Operating Group. Our quarterly distributable earnings may be affected by potential seasonal factors that may, in turn, affect the level of the cash distributions applicable to a particular quarter. For example, we generally receive tax-related incentive distributions from certain closed-end funds in the first quarter of the year, which if received generate distributable earnings in that period. Additionally, certain evergreen funds pay incentives, if any, in the fourth quarter of the year. As a result, the distribution amount for any given period is likely to vary materially due to these and other factors.

Tax distributions are not required in respect of the Class A units and are only required from the Oaktree Operating Group entities if and to the extent there is sufficient cash available for distribution. Accordingly, if there were

insufficient cash flow from operations to fund quarterly or tax distributions by the Oaktree Operating Group

85

entities, we expect that these distributions would not be made. We believe that we have sufficient access to cash from existing balances, our operations and the revolving credit facility described below to fund our operations and commitments.

Distributions on the preferred units are discretionary and non-cumulative. We may redeem, at our option, out of funds legally available, the preferred units, in whole or in part, at any time on or after June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, at a price of \$25.00 per preferred unit plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. Holders of the preferred units have no right to require the redemption of such preferred units.

Consolidated Cash Flows

The accompanying condensed consolidated statements of cash flows include our consolidated funds, despite the fact that we typically have only a minority economic interest in those funds. The assets of consolidated funds, on a gross basis, are larger than the assets of our business and, accordingly, have a substantial effect on the cash flows reflected in our condensed consolidated statements of cash flows. The primary cash flow activities of our consolidated funds involve:

- raising capital from third-party investors;
- using the capital provided by us and third-party investors to fund investments and operating expenses;
- financing certain investments with indebtedness;
- generating cash flows through the realization of investments, as well as the collection of interest and dividend income; and
- distributing net cash flows to fund investors and to us.

Because our consolidated funds are either treated as investment companies for accounting purposes or represent CLOs whose primary operations are investing activities, their investing cash flow amounts are included in our cash flows from operations. We believe that each of the consolidated funds and Oaktree has sufficient access to cash to fund their respective operations in the near term.

Significant amounts from our condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are discussed below.

Operating Activities

Operating activities used \$138.6 million and \$238.3 million of cash in the first nine months of 2018 and 2017, respectively. These amounts principally reflected net income, net of non-cash adjustments, in each respective period and net purchases of securities of the consolidated funds.

Investing Activities

Investing activities used \$263.5 million and provided \$499.8 million of cash in the first nine months of 2018 and 2017, respectively. Net activity from purchases, maturities and sales of U.S. Treasury and other securities included net purchases of \$293.3 million and net proceeds of \$433.2 million for the first nine months of 2018 and 2017, respectively. Corporate investments in funds and companies of \$212.4 million and \$75.3 million for the first nine months of 2018 and 2017, respectively, consisted of the following:

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Funds	\$469,702	\$274,462
Eliminated in consolidation	(257,275)	(199,146)
Total investments	\$212,427	\$75,316

Distributions and proceeds from corporate investments in funds and companies of \$245.8 million and \$164.0 million for the first nine months of 2018 and 2017, respectively, consisted of the following:

	Nine Months Ended	
	September 30,	
	2018	2017
	(in thousands)	
Funds	\$356,702	\$218,238
Eliminated in consolidation (110,901)	(54,287)	
Total proceeds	\$245,801	\$163,951

Purchases of fixed assets were \$3.5 million and \$27.0 million for the first nine months of 2018 and 2017, respectively. Additionally, the first nine months of 2017 included proceeds of \$5.0 million from the sale of a corporate aircraft.

Financing Activities

Financing activities provided \$309.4 million and used \$10.7 million of cash in the first nine months of 2018 and 2017, respectively, and included: (a) net distributions to non-controlling interests in consolidated funds of \$129.0 million and net contributions from non-controlling interests in consolidated funds \$169.8 million; (b) distributions to unitholders of \$383.4 million and \$466.3 million; (c) net unit purchases of \$12.0 million and \$11.5 million; (d) proceeds from CLO debt obligations of \$1,170.3 million and \$1,218.7 million and repayments of \$729.5 million and \$1,244.7 million, and (e) payments of debt issuance costs of \$4.0 million and \$7.8 million. Additionally, the first nine months of 2018 included \$400.6 million in net proceeds from the issuance of preferred units and the first nine months of 2017 included \$334.7 million in net borrowings on credit facilities of the consolidated funds.

Future Sources and Uses of Liquidity

We expect to continue to make distributions to our preferred unitholders in accordance with their contractual terms and our Class A unitholders pursuant to our distribution policy for our common units as described in our annual report. In the future, we may also issue additional units or debt and other equity securities with the objective of increasing our available capital. In addition, we may, from time to time, repurchase our Class A units or preferred units in open market or privately negotiated purchases or otherwise, redeem our Class A units or preferred units pursuant to the terms of our operating agreement, or repurchase OCGH units. Our board of directors has authorized our executive committee to make decisions in its discretion to repurchase our Class A units, from time to time, on an opportunistic basis.

In addition to our ongoing sources of cash that include management fees, incentive income and distributions related to our corporate investments in funds and companies, we also have access to liquidity through our debt financings, credit agreements and equity financings. We believe that the sources of liquidity described below will be sufficient to fund our working capital requirements for at least the next twelve months.

Debt Financings

In March 2018, Oaktree Capital Management, L.P., Oaktree Capital II, L.P., Oaktree AIF Investments, L.P., and Oaktree Capital I, L.P. (collectively, the “Borrowers”) entered into the Fourth Amendment to Credit Agreement (the “Fourth Amendment”), which amended the credit agreement dated as of March 31, 2014 (as amended through and including the Third Amendment, the “Credit Agreement”). The Credit Agreement consists of a \$150 million fully-funded term loan, and a \$500 million revolving credit facility (the “Revolver”). The Fourth Amendment extended the maturity date of the Credit Agreement from March 31, 2021 to March 29, 2023, at which time the entire remaining principal balance of \$150 million is due, and provides the Borrowers with the option to extend the new maturity date by one year if the lenders holding at least 50% of the aggregate amount of the term loan and the revolving loan commitment thereunder on the date of the Borrowers’ extension request consent to such extension. The Fourth Amendment also favorably updated the commitment fee in the corporate ratings-based pricing grid. Borrowings under the Credit Agreement generally bear interest at a spread to either LIBOR or an alternative base rate. Based on the current credit ratings of Oaktree Capital Management, L.P., the interest rate on borrowings is LIBOR plus 1.00% per annum and the commitment fee on the unused portions of the Revolver is 0.10% per annum. The Credit Agreement contains customary financial covenants and restrictions, including (after giving effect to the Fourth Amendment) covenants regarding a maximum leverage ratio of 3.50-to-1.00 and a minimum required level of assets under

management (as defined in the credit agreement). The Fourth Amendment increased the maximum

87

leverage ratio to 3.50-to-1.00 and made certain other amendments to the provisions of the Credit Agreement. As of September 30, 2018, we had no outstanding borrowings under our \$500 million revolving credit facility.

In December 2017, our indirect subsidiary, Oaktree Capital Management, L.P., issued and sold to certain accredited investors \$250 million of 3.78% senior notes due 2032 (the “2032 Notes”). The 2032 Notes are senior unsecured obligations of the issuer, jointly and severally guaranteed by our indirect subsidiaries, Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. The proceeds from the sale of the 2032 Notes and cash on hand were used to redeem the \$250 million of 6.75% Senior Notes due 2019 and to pay the related make-whole premium to holders thereof. In connection with the Notes offering, we entered into a cross-currency swap agreement to euros, reducing the interest cost to 1.95% per year. The 2032 Notes provide for certain affirmative and negative covenants, including financial covenants relating to the issuer’s and guarantors’ combined leverage ratio and minimum assets under management. In addition, the 2032 Notes contain customary representations and warranties of the issuer and the guarantors, and customary events of default, in certain cases, subject to cure periods. The issuer may prepay all, or from time to time any part of, the 2032 Notes at any time, subject to the issuer’s payment of the applicable make-whole amount determined with respect to such principal amount prepaid. Upon the occurrence of a change of control, the issuer will be required to make an offer to prepay the 2032 Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

In July 2016, Oaktree Capital Management, L.P., issued and sold to certain accredited investors \$100 million of 3.69% senior notes due July 12, 2031 (the “2031 Notes”). The 2031 Notes are senior unsecured obligations of the issuer, jointly and severally guaranteed by Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. pursuant to a note and guaranty agreement. The proceeds from the sale of the 2031 Notes were used to simultaneously repay \$100 million of borrowings outstanding under our \$250 million term loan due March 31, 2021. The 2031 Notes provide for certain affirmative and negative covenants, including financial covenants relating to the issuer’s and guarantors’ combined leverage ratio and minimum assets under management. In addition, the 2031 Notes contain customary representations and warranties of the issuer and the guarantors, and customary events of default, in certain cases, subject to cure periods. The issuer may prepay all, or from time to time any part of, the 2031 Notes at any time, subject to the issuer’s payment of the applicable make-whole amount determined with respect to such principal amount prepaid. Upon the occurrence of a change of control, the issuer will be required to make an offer to prepay the 2031 Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

In September 2014, Oaktree Capital Management, L.P. issued and sold to certain accredited investors \$50 million aggregate principal amount of 3.91% Senior Notes, Series A, due September 3, 2024 (the “Series A Notes”), \$100 million aggregate principal amount of 4.01% Senior Notes, Series B, due September 3, 2026 (the “Series B Notes”) and \$100 million aggregate principal amount of 4.21% Senior Notes, Series C, due September 3, 2029 (the “Series C Notes”) and together with the Series A Notes and the Series B Notes, the “Senior Notes”) pursuant to a note and guarantee agreement. The Senior Notes are senior unsecured obligations of the issuer, guaranteed on a joint and several basis by Oaktree Capital I, L.P., Oaktree Capital II, L.P. and Oaktree AIF Investments, L.P. Interest on the 2014 Notes is payable semi-annually. The Senior Notes provide for certain affirmative and negative covenants, including financial covenants relating to the issuer’s and guarantors’ combined leverage ratio and minimum assets under management. In addition, the Senior Notes contain customary representations and warranties of the issuer and the guarantors, and customary events of default, in certain cases, subject to cure periods. The issuer may prepay all, or from time to time any part of, the Senior Notes at any time, subject to the issuer’s payment of the applicable make-whole amount determined with respect to such principal amount prepaid. Upon the occurrence of a change of control, the issuer will be required to make an offer to prepay the Senior Notes together with the applicable make-whole amount determined with respect to such principal amount prepaid.

Preferred Unit Issuances

On May 17, 2018, we issued 7,200,000 of our 6.625% Series A preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$173.7 million in net proceeds to us. Distributions on the Series A preferred units, when and if declared by the board of directors of Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year. The first distribution was paid on September 17, 2018. Distributions on the Series A preferred units are non-cumulative.

On August 9, 2018, we issued 9,400,000 of our 6.550% Series B preferred units representing limited liability company interests with a liquidation preference of \$25.00 per unit. The issuance resulted in \$226.9 million in net proceeds to us. Distributions on the Series B preferred units, when and if declared by the board of directors of

Oaktree, will be paid quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on December 17, 2018. Distributions on the Series B preferred units are non-cumulative.

Unless distributions have been declared and paid or declared and set apart for payment on the preferred units for a quarterly distribution period, during the remainder of that distribution period we may not repurchase any common units or any other units that are junior in rank, as to the payment of distributions, to the preferred units and we may not declare or pay or set apart payment for distributions on any common units or junior units for the remainder of that distribution period, other than certain Permitted Distributions (as defined in the unit designation related to the applicable preferred units (each, the “Preferred Unit Designation”). These restrictions are not applicable during the initial distribution period, which is the period from the original issue date to, but excluding, September 15, 2018 and December 15, 2018 in regards to the Series A and Series B preferred units, respectively.

We may redeem, at our option, out of funds legally available, the preferred units, in whole or in part, at any time on or after June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, at a price of \$25.00 per preferred unit plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions. Holders of the preferred units have no right to require the redemption of the preferred units.

If a Change of Control Event (as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, we may, at our option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days’ notice, within 60 days of the occurrence of such Change of Control Event, at a price of \$25.25 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

If a Tax Redemption Event or Rating Agency Event (each, as defined in the applicable Preferred Unit Designation) occurs prior to June 15, 2023 in respect of the Series A preferred units or September 15, 2023 in respect of the Series B preferred units, we may, at our option, out of funds legally available, redeem the applicable preferred units, in whole but not in part, upon at least 30 days’ notice, within 60 days of the occurrence of such Tax Redemption Event or Rating Agency Event, at a price of \$25.50 per preferred unit, plus declared and unpaid distributions to, but excluding, the redemption date, without payment of any undeclared distributions.

The preferred units are not convertible into Class A units or any other class or series of our interests or any other security. Holders of the preferred units do not have any of the voting rights given to holders of our Class A units, except that holders of the preferred units are entitled to certain voting rights under certain conditions.

Class A Unit Issuance

On February 12, 2018, we issued and sold 5,000,000 Class A units in a public offering, resulting in \$219.5 million in net proceeds to us. We did not retain any proceeds from the sale of Class A units in this offering. The proceeds were used to acquire interests in our business from certain of our directors, employees and other investors, including certain senior executives and other members of our senior management.

Tax Receivable Agreement

Oaktree Holdings, Inc. and Oaktree AIF Holdings, Inc. have entered into a tax receivable agreement with OCGH unitholders that, as amended, provides for the payment to an exchanging or selling OCGH unitholder of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income taxes that they actually realize (or are deemed to realize in the case of an early termination payment by Oaktree Holdings, Inc. or Oaktree AIF Holdings, Inc., or a change of control) as a result of an increase in the tax basis of the assets owned by the Oaktree Operating Group. When an exchange of OCGH units results in an increase to the tax basis of the assets owned by the Oaktree Operating Group, a deferred tax asset and an associated liability for payments to OCGH unitholders under the tax receivable agreement are recorded, subject to realizability considerations. The establishment of a deferred tax asset increases additional paid-in capital because the transactions are between Oaktree and its unitholders.

Assuming no further material changes in the relevant tax law and that Oaktree earns sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, as of September 30, 2018, future payments of this nature were estimated to aggregate \$13.3 million over the period ending approximately in 2029 with respect to the 2007 Private Offering, \$32.5 million over the period ending approximately in 2034 with respect to the initial public offering, \$45.8 million over the period ending approximately in 2035 with respect to the public

offering in May 2013, \$34.7 million over the period ending approximately in 2036 with respect to the public offering in March 2014, \$29.6 million over the period ending approximately in 2037 with respect to the public offering in March 2015, and \$34.3 million over the period ending approximately in 2040 with respect to the public offering in February 2018. Future estimated payments to OCGH unitholders under the tax receivable agreement are subject to increase in the event of additional exchanges of OCGH units.

For the nine months ended September 30, 2018, \$20.7 million was paid under the tax receivable agreement.

Capital Requirements of Regulated Entities

We are required to maintain minimum net capital balances for regulatory purposes in the U.S. and certain non-U.S. jurisdictions in which we do business, which are met in part by retaining cash and cash-equivalents in those jurisdictions. As a result, we may be restricted in our ability to transfer cash between different jurisdictions. As of September 30, 2018, we were required to maintain approximately \$186 million in net capital at these subsidiaries and were in compliance with all regulatory minimum net capital requirements as of such date.

Contractual Obligations, Commitments and Contingencies

In the ordinary course of business, Oaktree and our consolidated funds enter into contractual arrangements that may require future cash payments. The following table sets forth information related to anticipated future cash payments as of September 30, 2018:

	Last Three Months of 2018 (in thousands)	2019-2020	2021-2022	Thereafter	Total
Oaktree and Operating Subsidiaries:					
Operating lease obligations ⁽¹⁾	\$4,761	\$ 37,126	\$ 32,353	\$80,064	\$154,304
Debt obligations payable ⁽²⁾	—	—	—	750,000	750,000
Interest obligations on debt ⁽³⁾	7,050	56,398	51,511	189,425	304,384
Tax receivable agreement	—	30,225	32,697	127,279	190,201
Contingent consideration ⁽⁴⁾	8,246	—	—	—	8,246
Commitments to Oaktree and third-party funds ⁽⁵⁾	454,955	—	—	—	454,955
Subtotal	475,012	123,749	116,561	1,146,768	1,862,090
Consolidated Funds:					
Debt obligations payable ⁽²⁾	—	—	—	870,098	870,098
Interest obligations on debt ⁽³⁾	8,017	64,135	64,135	181,512	317,799
Debt obligations of CLOs ⁽²⁾	103,782	—	—	3,517,041	3,620,823
Interest on debt obligations of CLOs ⁽³⁾	21,743	171,661	171,661	500,918	865,983
Commitments to fund investments ⁽⁶⁾	11,421	—	—	—	11,421
Total	\$619,975	\$ 359,545	\$ 352,357	\$6,216,337	\$7,548,214

We lease our office space under agreements that expire periodically through 2030. The table includes only guaranteed minimum lease payments for these leases and does not project other lease-related payments. These

(1) leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities in our consolidated financial statements.

(2) These obligations represent future principal payments, gross of debt issuance costs, and for CLOs, the par value.

(3) Interest obligations include accrued interest on outstanding indebtedness. Where applicable, current interest rates are applied to estimate future interest obligations on variable-rate debt.

This represents the undiscounted contingent consideration obligation as of September 30, 2018. Due to uncertainty

(4) in the timing of payment, if any, the entire amount is presented in the 2018 column. Please see note 17 to our condensed consolidated financial statements for more information.

(5) These obligations represent commitments by us to provide general partner capital funding to our funds and limited partner capital funding to funds managed by unaffiliated third parties. These amounts are generally due on demand and are therefore presented in the 2018 column. Capital commitments are expected to be called over a period of

several years.

(6) These obligations represent commitments by our funds to make investments or fund uncalled contingent commitments. These amounts are generally due either on demand or by various contractual dates that vary by investment and are therefore presented in the 2018 column. Capital commitments are expected to be called over a period of several years.

90

In some of our service contracts or management agreements, we have agreed to indemnify third-party service providers or separate account clients under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has neither been included in the above table nor recorded in our condensed consolidated financial statements as of September 30, 2018.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements. Please see note 17 to our condensed consolidated financial statements included elsewhere in this quarterly report for information on our commitments and contingencies.

Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe our critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. For a summary of our significant accounting policies, please see the notes to our condensed consolidated financial statements included elsewhere in this quarterly report and the notes to our consolidated financial statements in our annual report. For a summary of our critical accounting policies, please see “Management’s Discussion and Analysis of Financial Condition and Result of Operations—Critical Accounting Policies” in our annual report.

The table below summarizes the fair value of the investments and other financial instruments held by our consolidated funds by fund structure and fair-value hierarchy levels and the debt obligations of our CLOs for each period presented in our condensed consolidated statements of financial condition (in thousands):

As of September 30, 2018	Level I	Level II	Level III	Total
Closed-end funds	\$4,399	\$5,094,857	\$164,867	\$5,264,123
Open-end funds	2,297	482,192	145,843	630,332
Evergreen funds	56,412	31,461	—	87,873
Total	\$63,108	\$5,608,510	\$310,710	\$5,982,328
CLO debt obligations	\$—	\$(3,648,217)	\$—	\$(3,648,217)
As of December 31, 2017				
Closed-end funds	\$4,430	\$4,598,334	\$117,527	\$4,720,291
Open-end funds	3,813	548,361	48,788	600,962
Evergreen funds	131,598	(87)	121,087	252,598
Total	\$139,841	\$5,146,608	\$287,402	\$5,573,851
CLO debt obligations	\$—	\$(3,219,592)	\$—	\$(3,219,592)

Recent Accounting Developments

Please see note 2 to our condensed consolidated financial statements included elsewhere in this quarterly report for information regarding recent accounting developments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to a broad range of risks inherent in the financial markets in which we participate, including price risk, interest-rate risk, access to and cost of financing risk, liquidity risk, counterparty risk and foreign exchange-rate risk. Potentially negative effects of these risks may be mitigated to a certain extent by those aspects of our investment approach, investment strategies, fundraising practices or other business activities that are designed to benefit, either in relative or absolute terms, from periods of economic weakness, tighter credit or financial market dislocations.

Our predominant exposure to market risk is related to our role as general partner or investment adviser to our funds and as an investor in our CLOs, and the sensitivities to movements in the fair value of their investments on management fees, incentive income and investment income, as applicable. The fair value of the financial assets and liabilities of our funds and CLOs may fluctuate in response to changes in, among many factors, the fair value of securities, foreign-exchange rates, commodities prices and interest rates.

Price Risk

Impact on Net Change in Unrealized Appreciation (Depreciation) on Consolidated Funds' Investments

As of September 30, 2018, we had investments, at fair value of \$6.0 billion related to our consolidated funds, primarily consisting of investments held by our CLOs. We estimate that a 10% decline in market values would result in a decrease in unrealized appreciation (depreciation) on the consolidated funds' investments of \$600.1 million. Of this decline, approximately \$113.3 million would impact net income attributable to OCG Class A unitholders, with the remainder attributable to non-controlling interests and third-party debt holders in our CLOs. The magnitude of the impact on net income attributable to OCG Class A unitholders is largely affected by the percentage of our equity ownership interest and levered nature of our CLO investments.

Impact on Management Fees (before consolidation of funds)

Management fees are generally assessed in the case of (a) our open-end and evergreen funds, based on NAV, and (b) our closed-end funds, based on committed capital, drawn capital or cost basis during the investment period and, during the liquidation period, based on the lesser of (i) the total funded committed capital or (ii) the cost basis of assets remaining in the fund. Management fees are affected by changes in market values to the extent they are based on NAV. For the nine months ended September 30, 2018 and 2017, NAV-based management fees represented approximately 37% and 33%, respectively, of total management fees. Based on investments held as of September 30, 2018, we estimate that a 10% decline in market values of the investments held in our funds would result in an approximate \$7.1 million decrease in the amount of quarterly management fees. These estimated effects are without regard to a number of factors that would be expected to increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds or the timing of fund flows.

Impact on Incentive Income (before consolidation of funds)

Incentive income is recognized only when it is probable that a significant reversal will not occur, which in the case of (a) our closed-end funds, generally occurs only after all contributed capital and an annual preferred return on that capital (typically 8%) have been distributed to the fund's investors and (b) our active evergreen funds, generally occurs as of December 31, based on the increase in the fund's NAV during the year, subject to any high-water marks or hurdle rates. In the case of closed-end funds, the link between short-term fluctuations in market values and a particular period's incentive income may in part be indirect. Thus the effect on incentive income of a 10% decline in market values is not readily quantifiable. A decline in market values would be expected to cause a decline in incentive income.

Impact on Investment Income (before consolidation of funds)

Investment income or loss arises from our pro-rata share of income or loss from our investments, generally in our capacity as general partner in our funds and as an investor in our CLOs and third-party managed funds or companies. This income is directly affected by changes in market risk factors. Based on investments held as of September 30, 2018, a 10% decline in fair values of the investments held in our funds and other holdings would result in a \$358.9 million decrease in the amount of investment income. The estimated decline of \$358.9 million is greater than 10% of the September 30, 2018 corporate investments balance primarily due to the levered nature of our CLO investments. These estimated effects are without regard to a number of factors that would be expected to

increase or decrease the magnitude of the change to degrees that are not readily quantifiable, such as the use of leverage facilities in certain of our funds, the timing of fund flows or the timing of new investments or realizations.

Exchange-rate Risk

Our business is affected by movements in the exchange rate between the U.S. dollar and non-U.S. dollar currencies in the case of (a) management fees that vary based on the NAV of our funds that hold investments denominated in non-U.S. dollar currencies, (b) management fees received in non-U.S. dollar currencies, (c) operating expenses for our foreign offices that are denominated in non-U.S. dollar currencies, and (d) cash and other balances we hold in non-U.S. dollar currencies. We manage our exposure to exchange-rate risks through our regular operating activities and, when appropriate, through the use of derivative instruments.

We estimate that for the nine months ended September 30, 2018, without considering the impact of derivative instruments, a 10% decline in the average exchange rate of the U.S. dollar would have resulted in the following approximate effects on our operating results:

- our management fees (relating to (a) and (b) above) would have increased by \$8.4 million;
- our operating expenses would have increased by \$10.4 million;
- OCGH interest in net income of consolidated subsidiaries would have decreased by \$1.1 million; and
- our income tax expense would have decreased by \$0.2 million.

These movements would have decreased our net income attributable to OCG Class A unitholders by \$0.7 million.

At any point in time, some of the investments held by our closed-end and evergreen funds may be denominated in non-U.S. dollar currencies on an unhedged basis. Changes in currency rates could affect incentive income, incentives created (fund level) and investment income with respect to such closed-end and evergreen funds; however, the degree of impact is not readily determinable because of the many indirect effects that currency movements may have on individual investments.

Credit Risk

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In such agreements, we depend on the respective counterparty to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting to reputable financial institutions the counterparties with which we enter into financial transactions. In other circumstances, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

Interest-rate Risk

As of September 30, 2018, Oaktree and its operating subsidiaries had \$745.8 million in debt obligations, consisting of three senior notes issuances and a funded term loan. Each senior notes issuance accrues interest at a fixed rate. The funded term loan accrues interest at a variable rate. As of September 30, 2018, interest expense attributable to Oaktree and its operating subsidiaries would increase by \$1.5 million on an annualized basis as a result of a 100-basis point increase in interest rates. Of the \$1.0 billion of aggregate cash and U.S. Treasury and other securities as of September 30, 2018, we estimate that Oaktree and its operating subsidiaries would generate an additional \$10.1 million in interest income on an annualized basis as a result of a 100-basis point increase in interest rates.

Our consolidated funds have debt obligations, most of which accrue interest at variable rates. Changes in these rates would affect the amount of interest payments that our funds would have to make, impacting future earnings and cash flows. As of September 30, 2018, the consolidated funds had \$4.5 billion of principal or par value, as applicable, outstanding under these debt obligations. We estimate that interest expense relating to variable-rate debt would increase on an annualized basis by \$41.0 million in the event interest rates were to increase by 100 basis points.

As credit-oriented investors, we are also subject to interest-rate risk through the securities we hold in our consolidated funds. A 100-basis point increase in interest rates would be expected to negatively affect prices of

securities that accrue interest income at fixed rates and therefore negatively impact the net change in unrealized appreciation (depreciation) on consolidated funds' investments. The actual impact is dependent on the average duration of such holdings. Conversely, securities that accrue interest at variable rates would be expected to benefit from a 100-basis point increase in interest rates because these securities would generate higher levels of current income and therefore positively impact interest and dividend income. In cases where our funds pay management fees based on NAV, we would expect our management fees to experience a change in direction and magnitude corresponding to that experienced by the underlying portfolios.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

No changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, please see the section entitled “Legal Actions” in note 17 to our condensed consolidated financial statements included elsewhere in this quarterly report, which section is incorporated herein by reference. Also, please see “Item 1A. Risk Factors—Risks Related to Our Business—Extensive regulation in the United States and abroad affects our activities and creates the potential for significant liabilities and penalties that could adversely affect our business and results of operations” in our annual report.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, please see the information under “Risk Factors” in our annual report. There have been no material changes to the risk factors as disclosed in our annual report.

The risks described in our annual report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Under our operating agreement, we are required to issue one Class B unit for each OCGH unit issued. Accordingly, we issued 67,765 Class B units to OCGH on August 3, 2018, which corresponded to the number of OCGH units issued by OCGH pursuant to our 2011 Equity Incentive Plan, subject to time-based vesting.

No purchase price was paid by OCGH to the Company for the issuances of the Class B units to OCGH. These issuances, to the extent they constitute sales, were exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act, as transactions by an issuer not involving any public offering.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Fund Data

Information regarding our closed-end, open-end and evergreen funds, together with benchmark data where applicable, is set forth below. For our closed-end and evergreen funds, no benchmarks are presented in the tables as there are no known comparable benchmarks for these funds’ investment philosophy, strategy and implementation.

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Closed-end Funds

As of September 30, 2018

	Investment Period		Total Committed Capital	% Invested (1)	% Drawn (2)	Fund Net Income Since Inception	Distri- butions Since Inception	Net Asset Value	Manage- ment Fee-gen- erating AUM	Income Recognized (Non- GAAP)	Accrued Incentives (Fund Level)	Unreturned Capital Plus Accrued Preferred Return (4)	IRR Since Inception (3)	Net
	Start Date	End Date												
Credit Distressed Debt Oaktree Opportunities Fund Xb (7)(13)	(in millions)													
	TBD	—	\$8,872	9 %	5 %	\$—	\$—	\$443	\$438	\$—	\$—	\$456	nm	nm
Oaktree Opportunities Fund X (7)	Jan. 2016	Jan. 2019	3,603	86	72	1,081	152	3,518	3,486	—	210	2,777	33.3 %	21.0 %
Oaktree Opportunities Fund IX	Jan. 2014	Jan. 2017	5,066	nm	100	698	1,672	4,092	3,554	—	—	5,292	5.7	3.2
Oaktree Opportunities Fund VIIIb	Aug. 2011	Aug. 2014	2,692	nm	100	938	2,100	1,530	1,469	52	—	1,860	9.0	6.2
Special Account B	Nov. 2009	Nov. 2012	1,031	nm	100	629	1,568	171	165	16	3	53	13.8	11.0
Oaktree Opportunities Fund VIII	Oct. 2009	Oct. 2012	4,507	nm	100	2,613	6,444	677	635	209	300	—	13.1	9.2
Special Account A	Nov. 2008	Oct. 2012	253	nm	100	317	554	16	23	60	3	—	28.1	22.0
OCM Opportunities Fund VIIIb	May 2008	May 2011	10,940	nm	90	9,053	18,257	640	640	1,634	125	—	21.9	16.0
OCM Opportunities Fund VII	Mar. 2007	Mar. 2010	3,598	nm	100	1,487	4,843	242	—	87	—	419	10.2	7.5
Legacy funds (8)	Various	Various	12,495	nm	100	10,456	22,931	21	—	1,558	5	—	23.6 22.0 %	18.0 16.0 %
Private/Alternative Credit Oaktree European Capital Solutions Fund (7)(9)(10)	Dec. 2015	Dec. 2018	€703	80 %	64 %	€47	€214	€269	€321	€—	€6	€250	13.0 %	8.4 %
Oaktree European Dislocation Fund (10)	Oct. 2013	Oct. 2016	€294	nm	57	€39	€203	€18	€17	€3	€3	€—	19.5	13.0
Special Account E (10)	Oct. 2013	Apr. 2015	€379	nm	69	€64	€321	€4	€3	€9	€1	€—	14.3 14.9 %	11.0 10.0 %
	Oct. 2014	Oct. 2019	\$852	81 %	78 %	\$110	\$232	\$540	\$514	\$—	\$14	\$523	11.4 %	8.3 %

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Oaktree
Mezzanine Fund
IV ⁽⁹⁾

Oaktree Mezzanine Fund III ⁽¹¹⁾	Dec. 2009	Dec. 2014	1,592	nm	89	465	1,796	92	104	17	30	22	15.3	10.4
OCM Mezzanine Fund II	Jun. 2005	Jun. 2010	1,251	nm	88	493	1,691	54	—	—	—	131	10.9	7.4
OCM Mezzanine Fund ⁽¹²⁾	Oct. 2001	Oct. 2006	808	nm	96	302	1,075	—	—	38	—	—	15.4	10.0
													13.0%	8.7%

Emerging Markets
Debt

Oaktree Emerging Markets Opportunities Fund II ⁽¹³⁾	TBD	—	\$178	8	%	8	%	\$—	\$—	\$13	\$25	\$—	\$—	\$12	nm	nm
Oaktree Emerging Market Opportunities Fund	Sep. 2013	Sep. 2017	384	nm	78	117	324	92	78	8	13	51	15.7%	10.0%		
Special Account F	Jan. 2014	Sep. 2017	253	nm	96	76	263	55	54	6	9	28	15.3	10.0%	15.5%	10.0%

Private Equity
Corporate Private
Equity

Oaktree European															
Principal Fund IV	Jul. 2017	Jul. 2022	€1,119	77 %	63 %	€135	€9	€835	€1,093	€—	€26	€751	nm	nm	
(7)(10)(13)															
Oaktree European															
Principal Fund III	Nov. 2011	Nov. 2016	€3,164	nm	85	€2,567	€2,140	€3,176	€2,455	€—	€499	€1,696	19.1 %	13.0 %	
(10)															
OCM European															
Principal Opportunities Fund II	Dec. 2007	Dec. 2012	€1,759	nm	100	€225	€1,865	€90	€348	€29	€—	€757	6.9	2.5	
(10)															
OCM European															
Principal Opportunities Fund	Mar. 2006	Mar. 2009	\$495	nm	96	\$454	\$927	\$—	\$—	\$87	\$—	\$—	11.7	8.9	
13.6 % 9.0 %															

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

As of September 30, 2018																
	Investment Period		Total Committed Capital	% Invested (1)	% Drawn (2)	Fund Net Income Since Inception	Distributions Since Inception	Net Asset Value	Management Fee-generating AUM	Incentive-recognized (Non-GAAP)	Accrued Incentives (Fund Level)	Unreturned Capital Plus Accrued Preferred Return (4)	IRR Since Inception (5)			
	Start Date	End Date											Gross	Net		
(in millions)																
Oaktree Power Opportunities Fund IV	Nov. 2015	Nov. 2020	\$1,106	89 %	88 %	\$115	\$1	\$1,086	\$1,078	\$—	\$—	\$1,088	12.2 %	7.8 %		
Oaktree Power Opportunities Fund III	Apr. 2010	Apr. 2015	1,062	nm	69	641	970	408	319	26	97	—	23.7	16.0		
Legacy funds (8)	Various	Various	1,470	nm	63	1,689	2,616	—	—	123	—	—	35.1	27.4		
													34.5 %	26.2 %		
Special Situations Oaktree Special Situations Fund II (7)	TBD	—	\$1,217	1 %	1 %	\$(1)	\$—	\$15	\$57	\$—	\$—	\$16	n/a	n/a		
Oaktree Special Situations Fund (7)	Nov. 2015	Nov. 2018	1,377	100	73	208	163	1,049	1,125	—	38	933	28.5 %	15.8 %		
Other funds:																
Oaktree Principal Fund V	Feb. 2009	Feb. 2015	\$2,827	nm	91 %	\$556	\$1,760	\$1,382	\$1,381	\$50	\$—	\$2,137	7.7 %	3.7 %		
Special Account C	Dec. 2008	Feb. 2014	505	nm	91	196	423	233	242	21	—	273	10.1	6.9		
OCM Principal Opportunities Fund IV	Oct. 2006	Oct. 2011	3,328	nm	100	2,947	6,166	110	—	554	20	—	12.3	8.9		
Legacy funds (8)	Various	Various	3,701	nm	100	2,713	6,404	10	—	407	2	—	14.4	11.1		
													13.0 %	9.3 %		
Real Assets Real Estate Oaktree Real Estate Opportunities Fund VII (13)(14)	Jan. 2016	Jan. 2020	\$2,921	82 %	37 %	\$384	\$244	\$1,229	\$2,747	\$—	\$74	\$897	nm	nm		
			2,677	nm	100	1,422	2,458	1,641	1,290	70	205	1,146	15.3 %	10.3 %		

Edgar Filing: Oaktree Capital Group, LLC - Form 10-Q

Oaktree Real Estate Opportunities Fund VI	Aug. 2012	Aug. 2016													
Oaktree Real Estate Opportunities Fund V	Mar. 2011	Mar. 2015	1,283	nm	100	987	2,081	189	113	152	36	—	17.2	12.7	
Special Account D	Nov. 2009	Nov. 2012	256	nm	100	207	429	42	—	16	4	—	14.8	12.8	
Oaktree Real Estate Opportunities Fund IV	Dec. 2007	Dec. 2011	450	nm	100	392	779	63	51	61	13	—	15.8	10.7	
Legacy funds ⁽⁸⁾	Various	Various	2,341	nm	99	2,010	4,324	2	—	232	—	—	15.2	11.9	
													15.6%	11.9%	
Oaktree Real Estate Debt Fund II ⁽⁹⁾⁽¹³⁾	Mar. 2017	Mar. 2020	\$2,087	47 %	14 %	\$31	\$32	\$288	\$894	\$—	\$5	\$267	nm	nm	
Oaktree Real Estate Debt Fund	Sep. 2013	Oct. 2016	1,112	nm	81	183	653	454	492	10	16	325	20.7%	15.4%	
Oaktree PPIP Fund ⁽¹⁵⁾	Dec. 2009	Dec. 2012	2,322	nm	48	457	1,570	—	—	47	—	—	28.2	n/a	
Special Account G (Real Estate Income) ⁽⁹⁾⁽¹³⁾	Oct. 2016	Oct. 2020	\$615	87 %	87 %	\$82	\$70	\$544	\$499	\$—	\$16	\$511	nm	nm	
Infrastructure Oaktree Transportation Infrastructure Fund	TBD	—	\$1,091	— %	— %	\$—	\$—	\$—	\$—	\$—	\$—	\$—	n/a	n/a	
Highstar Capital IV ⁽¹⁶⁾	Nov. 2010	Nov. 2016	2,000	nm	100	77	904	1,173	1,328	—	—	1,830	5.6 %	1.5 %	
									27,722 ⁽¹⁰⁾	1,859 ⁽¹⁰⁾					
								Other ⁽¹⁷⁾	8,520	5					
								Total ⁽¹⁸⁾	\$36,242	\$1,864					

(1) For our incentive-creating closed-end funds in their investment periods, this percentage equals invested capital divided by committed capital. Invested capital for this purpose is the sum of capital drawn from fund investors plus net borrowings, if any, outstanding, under a fund-level credit facility where such borrowings were made in lieu of drawing capital from fund investors.

Represents capital drawn from fund investors, net of distributions to such investors of uninvested capital, divided by committed capital. The aggregate change in drawn capital for the three months ended September 30, 2018 was \$0.9 billion.

(3) Accrued incentives (fund level) exclude non-GAAP incentive income previously recognized.

Unreturned drawn capital plus accrued preferred return reflects the amount the fund needs to distribute to its (4) investors as a return of capital and a preferred return (as applicable) before Oaktree is entitled to receive incentive income (other than tax distributions) from the fund.

The internal rate of return (“IRR”) is the annualized implied discount rate calculated from a series of cash flows. It is the return that equates the present value of all capital invested in an investment to the present value of all returns of capital, or the discount rate that will provide a net present value of all cash flows equal to zero. Fund-level IRRs (5) are calculated based upon the actual timing of cash contributions/distributions to investors and the residual value of such investor’s capital accounts at the end of the applicable period being measured. Gross IRRs reflect returns before allocation of management fees, expenses and any incentive allocation to the fund’s general partner. To the extent

material, gross returns include certain transaction, advisory, directors or other ancillary fees (“fee income”) paid directly to us in connection with our funds’ activities (we credit all such fee income back to the respective fund(s) so that our funds’ investors share pro rata in the fee income’s economic benefit). Net IRRs reflect returns to non-affiliated investors after allocation of management fees, expenses and any incentive allocation to the fund’s general partner.

(6) Multiple of drawn capital is calculated as drawn capital plus gross income and, if applicable, fee income before fees and expenses divided by drawn capital.

Fund data include the performance of the main fund and any associated fund-of-one accounts, except the gross and (7) net IRRs presented reflect only the performance of the main fund. Certain fund-of-one accounts pay management fees based on cost basis, rather than committed capital.

Legacy funds represent certain predecessor funds within the relevant strategy or product that have substantially or completely liquidated their assets, including funds managed by certain Oaktree investment professionals while (8) employed at the Trust Company of the West prior to Oaktree’s founding in 1995. When these employees joined Oaktree upon, or shortly after, its founding, they continued to manage the fund through the end of its term pursuant to a sub-advisory relationship between the Trust Company of the West and Oaktree.

Management fees during the investment period are calculated on drawn capital or cost basis, rather than committed (9) capital. As a result, as of September 30, 2018 management fee-generating AUM included only that portion of committed capital that had been drawn.

(10) Aggregate IRRs or totals are based on the conversion of cash flows or amounts, respectively, from euros to USD using the September 30, 2018 spot rate of \$1.16.

The fund’s partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. The net IRR for Class A (11) interests was 10.4% and Class B interests was 9.1%. The combined net IRR for Class A and Class B interests was 9.8%.

The fund’s partnership interests are divided into Class A and Class B interests, with the Class A interests having priority with respect to the distribution of current income and disposition proceeds. The net IRR for Class A (12) interests was 10.8% and Class B interests was 10.5%. The combined net IRR for the Class A and Class B interests was 10.6%.

(13) The IRR is not considered meaningful (“nm”) as the period from the initial capital contribution through September 30, 2018 was less than 36 months.

(14) A portion of this fund pays management fees based on drawn, rather than committed, capital.

Due to differences in the allocation of income and expenses to this fund’s two primary limited partners, the U.S. Treasury and Oaktree PPIP Private Fund, a combined net IRR is not presented. Of the \$2,322 million in capital (15) commitments, \$1,161 million related to the Oaktree PPIP Private Fund, whose gross and net IRR were 24.7% and 18.6%, respectively.

The fund follows the American-style distribution waterfall, whereby the general partner may receive an incentive allocation as soon as it has returned the drawn capital and paid a preferred return on the fund’s realized (16) investments (i.e., on a deal-by-deal basis). However, such cash distributions of incentives may be subject to repayment, or clawback. As of September 30, 2018, Oaktree had not recognized any incentive income from this fund. The accrued incentives (fund level) for this fund represents Oaktree’s effective 8% of the potential incentives generated by this fund in accordance with the terms of the Highstar acquisition.

(17) This includes our closed-end Senior Loan funds, CLOs, a non-Oaktree fund and certain separate accounts and co-investments.

(18) The total excludes one closed-end fund with management fee-generating AUM of \$109 million as of September 30, 2018, which has been included as part of the Strategic Credit strategy within the evergreen funds table.

Open-end Funds

Strategy Inception	Management Fee-gener- ating AUM as of Sept. 30, 2018 (in millions)	Twelve Months Ended September 30, 2018			Since Inception through September 30, 2018					
		Rates of Return ⁽¹⁾			Annualized Rates of Return ⁽¹⁾			Sharpe Ratio		
		Oaktree	Rele- vant	Bench- mark	Oaktree	Rele- vant	Bench- mark	Oaktree	Rele- vant	Bench- mark
		Gross	Net		Gross	Net		Gross		
Credit										
High Yield Bonds										
U.S. High Yield Bonds	1986	\$ 14,722	2.0 %	1.5 %	3.2 %	9.1 %	8.6 %	8.2 %	0.80	0.57
Global High Yield Bonds	2010	3,617	2.5	2.0	3.0	7.0	6.4	6.7	1.12	1.10
European High Yield Bonds	1999	463	3.7	3.2	2.4	7.9	7.4	6.3	0.72	0.46
Convertibles										
U.S. Convertibles	1987	2,080	10.1	9.5	12.2	9.4	8.9	8.4	0.51	0.40
Non-U.S. Convertibles	1994	1,344	2.6	2.1	0.3	8.1	7.6	5.4	0.78	0.40
High Income Convertibles	1989	1,058	5.0	4.4	3.3	11.1	10.3	8.1	1.06	0.61
Senior Loans										
U.S. Senior Loans	2008	688	5.8	5.2	5.6	6.0	5.5	5.3	1.14	0.68
European Senior Loans	2009	1,455	2.2	1.7	2.8	7.4	6.8	8.0	1.65	1.67
Multi-Strategy Credit										
Multi-Strategy Credit ⁽²⁾	Various	2,677	nm	nm	nm	nm	nm	nm	nm	nm
Listed Equities										
Emerging Markets Equities										
Emerging Markets Equities	2011	4,016	0.6	(0.2)	(0.8)	2.3	1.4	1.2	0.10	0.05
Total		\$ 32,120								

(1) Returns represent time-weighted rates of return, including reinvestment of income, net of commissions and transaction costs. The returns for Relevant Benchmarks are presented on a gross basis.

(2) Includes Global Credit Fund and individual accounts across various strategies with different investment mandates. As such, a combined performance measure is not considered meaningful (“nm”).

Evergreen Funds

		As of September 30, 2018			Twelve Months Ended September 30, 2018		Since Inception through September 30, 2018	
		AUM	Manage- ment Fee-gener- ating AUM	Accrued Incen- tives (Fund Level)	Rates of Return ⁽¹⁾		Annualized Rates of Return ⁽¹⁾	
Strategy Inception		(in millions)			Gross	Net	Gross	Net
Credit								
Private/Alternative Credit								
Strategic Credit ⁽²⁾	2012	\$5,390	\$ 4,950	\$ 14	12.3%	9.6 %	9.8 %	7.2 %
Distressed Debt								
Value Opportunities	2007	1,124	1,042	20	19.7	14.6	10.2	6.3
Emerging Markets Debt								
Emerging Markets Debt ⁽³⁾	2015	902	430	4	6.8	4.9	13.9	10.7
Listed Equities								
Value/Other Equities								
Value Equities ⁽⁴⁾	2012	544	519	6	24.7	18.0	21.0	15.2
			6,941	44				
Other ⁽⁵⁾			734	11				
Restructured funds			—	5				
Total ⁽²⁾			\$ 7,675	\$ 60				

(1) Returns represent time-weighted rates of return.

Includes our publicly-traded BDCs and one closed-end fund with \$108 million and \$109 million of AUM and

(2) management fee-generating AUM, respectively. The rates of return reflect the performance of a composite of certain evergreen accounts and exclude our publicly-traded BDCs.

Includes the Emerging Markets Debt Total Return and Emerging Markets Opportunities strategies. The rates of

(3) return reflect the performance of a composite of accounts for the Emerging Markets Debt Total Return strategy, including a single account with a December 2014 inception date.

(4) Includes performance of a proprietary fund with an initial capital commitment of \$25 million since its inception in May 2012.

(5) Includes certain Real Estate and Multi-Strategy Credit accounts.

Item 6. Exhibits

For a list of exhibits filed with this report, refer to the Exhibits Index on the page immediately preceding the exhibits, which Exhibit Index is incorporated herein by reference.

101

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 2, 2018

Oaktree Capital Group, LLC

By: /s/ Daniel D. Levin

Name: Daniel D. Levin

Title: Chief Financial Officer and Authorized Signatory

EXHIBITS INDEX

Exhibit No. Description of Exhibit

<u>3.1</u>	<u>Restated Certificate of Formation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form S-1, filed with the SEC on June 17, 2011).</u>
<u>3.2</u>	<u>Fourth Amended and Restated Operating Agreement of the registrant dated as of May 17, 2018 (including Unit Designation, dated as of November 16, 2015, Unit Designation with respect to the Series A Preferred Units, dated May 17, 2018, and Unit Designation with respect to the Series B Preferred Units, dated August 9, 2018).</u>
<u>3.3</u>	<u>Unit Designation with respect to the Series B Preferred Units, dated August 9, 2018 (included in Exhibit 3.2).</u>
<u>4.1</u>	<u>Form of 6.550% Series B Preferred Unit Certificate (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K, filed with the SEC on August 9, 2018).</u>
<u>10.1</u>	<u>Second Amended and Restated Limited Partnership Agreement of Oaktree Capital I, L.P., dated as of May 17, 2018 (including Unit Designation with respect to the Series A Preferred Mirror Units of Oaktree Capital I, L.P., dated May 17, 2018, and Unit Designation with respect to the Series B Preferred Mirror Units of Oaktree Capital I, L.P., dated August 9, 2018).</u>
<u>10.2</u>	<u>Unit Designation with respect to the Series B Preferred Mirror Units of Oaktree Capital I, L.P., dated August 9, 2018 (included as part of Exhibit 10.1).</u>
<u>31.1</u>	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
<u>32.2</u>	<u>Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

