OAKTREE INSIGHTS

JANUARY 2016

STRATEGY PRIMER: INVESTING IN REAL ESTATE

OAKTREE

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The global real estate market is enormous, with the commercial real estate market estimated at $14 trillion in the U.S. alone. This paper does not intend to break down the entire real estate market, but rather provide insight into some of the markets, where Oaktree is an active participant. This is Oaktree's first piece of its kind, and we, as a firm, anticipate doing more of these across Oaktree's strategy line-up. We hope you will enjoy it.

– John

JOHN BRADY

Managing Director and Portfolio Manager

Mr. Brady joined Oaktree in 2007 as Managing Director and head of the global Real Estate group. He serves as the portfolio manager for Oaktree's Real Estate Opportunities and Real Estate Debt strategies. Prior to joing Oaktree, Mr. Brady was a principal at Colony Capital, which he joined in 1991. He began his career working in the investment banking division of Merrill Lynch. Mr. Brady holds a B.A. degree in English from Dartmouth College and an M.B.A. with concentrations in corporate finance and real estate from the University of California, Los Angeles.

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INVESTING IN REAL ESTATE

OBJECTIVE

In this paper we seek to provide information on investing in real estate as an asset class. We will explore the following five topics to help provide a foundation for investing in real estate:

1. What is real estate?
2. What are the potential benefits of investing in real estate?
3. What are the different ways to invest in real estate?
4. What is the current opportunity in the real estate market?
5. What is Oaktree's approach to real estate investing?

WHAT IS REAL ESTATE?

At its core, real estate is tangible, real property consisting of land and the buildings on it. Generally, when most people think of real estate as an investment asset class, they divide it into two principal categories: commercial and residential. Commercial real estate typically refers to income-producing properties including office, retail, industrial/warehouse, hotel and multifamily rental apartment properties, in addition to sub-segments of the market like self-storage, manufactured housing and healthcare. In the United States, most large occupants of commercial real estate pay rent for the use of space instead of purchasing the space outright. Owners of commercial real estate typically receive monthly income in the form of rent from the tenants in the building. Residential real estate, on the other hand, refers to residential lots or dwelling units usually comprising single-family homes and condominiums that are mainly owned for personal use. The size of these markets in the United States is vast, with a commercial real estate market of $14 trillion[1] and a single-family home market of $22 trillion[2]. Beyond commercial and residential, there are many other forms of real estate-related investments, such as real estate-intensive operating companies, securities, real estate investment trusts, loan pools and real estate debt.

> *"Investors looking to allocate capital to real estate have many options that offer a range of benefits, risks and return profiles."*

WHAT ARE THE POTENTIAL BENEFITS OF INVESTING IN REAL ESTATE?

Some of the potential benefits of investing in private real estate include the opportunity for attractive total return, inflation protection, and low-to-moderate correlation to other asset classes.

Potentially Attractive Total Return

Real estate has historically generated attractive returns for its investors according to the total returns of the NCREIF Property Index and MSCI US REIT Index ("RMZ") as noted in Table 1 on the following page. The combination of current income and capital appreciation is particularly appealing, as investors look for both to contribute to returns.

Potentially Hedge against Inflation

Interest rates in the United States have hovered at historic lows for a multi-year period, with the 10-year Treasury remaining below 2.5% for almost seven years. "Easy money" policies – particularly when in place over protracted periods – cause many investors to be concerned about inflation and its value-eroding effect. Real estate lease contracts commonly include Consumer Price Index (CPI) or fixed upward lease escalators. Thus real estate, whose value typically rises in an inflationary period, can be purchased as a potential inflation hedge. Further, U.S. property leases, which are periodically reset or negotiated, will adjust rents in accordance with supply and demand.

Diversification

Real estate, and specifically private real estate, has historically displayed low correlation relative to stocks and bonds. This characteristic can be particularly beneficial when investors think about allocating capital within a broader portfolio. Table 2 shows the historical correlation of the NCREIF Index to other major asset classes.

Table 1: Real Estate Annualized Performance

Index	3-Year	5-Year	10-Year	20-Year
MSCI US REIT (RMZ)	9.5%	12.0%	6.8%	NA
NCREIF Property	11.9	12.5	8.0	9.8%
S&P 500	12.4	13.3	6.1	8.1
Barclays Capital U.S. Aggregate	1.7	3.1	4.6	5.6

Source: Bloomberg
Data through September 30, 2015.

WHAT ARE THE DIFFERENT WAYS TO INVEST IN REAL ESTATE?

Investors looking to allocate capital to real estate have many options that offer a range of benefits, risks and return profiles. In this paper we will explore the main strategies through which equity investments can be made in public or private real estate, either directly or through a fund structure.

Real Estate Investment Trusts

Overview

Real estate investments trusts ("REITs") come in both public and private forms; invest in either equity or debt; and are required to distribute at least 90% of their taxable income annually in the form of dividends. Equity REITs are companies whose primary business is owning and operating real estate properties, usually within a specialized property type such as office buildings, multifamily rental apartments, shopping centers or industrial properties. Mortgage or specialty finance REITs, a much smaller group in size and number, invest in residential or commercial mortgages, loans or sale-leasebacks.

Most investors are familiar with large public REITs, which typically own high-quality properties in primary markets and are professionally managed either internally or externally. These REITs generally have access to capital markets for debt and equity financings, and thus can potentially benefit from a low cost of capital and flexibility within the capital structure. Additionally, they tend to benefit from operational efficiencies, especially in tenant retention in the retail space.

The primary public benchmark for REITs is the MSCI US REIT Index ("RMZ"), which is a free-float-adjusted market-capitalization-weighted index of equity REIT securities. The total public market capitalization of the RMZ was $686 billion as of September 30, 2015.

Benefits and Risks

Publicly traded REITs trade on an exchange and are the most liquid form of real estate investment. As publicly traded companies, they are required to provide transparency into their activities and financial results through quarterly reporting. Public REITs are especially suitable for investors seeking indirect and/or passive exposure to institutional-quality, professionally managed real estate with the potential for current income and daily liquidity.

There are three primary risks to investing in public REITs: *(1)* they are positively correlated to the broader equity markets, which give them similar volatility; *(2)* their performance is highly dependent on overall stock market conditions; and *(3)* when the capital markets are sluggish, REITs have difficulty accessing capital with which to grow, since they are required to distribute 90% of their earnings. Historical data provided by SNL Financial suggests that U.S. REITs tend to trade between a 20% premium to NAV and a 20% discount. When REITs trade at a premium to NAV, investors are betting on the strength of management and its ability to grow the asset base at a pace that exceeds the valuer's expectations of the NAV. REITs may also trade at a premium to NAV when investors are placing greater importance on dividends than underlying asset value. Depending on valuation, REITs may or may not be a good investment.

Private REITs, although less common than public REITs, represent an important part of the market. Private REITs are usually syndicated to investors who meet established net worth and income requirements. Private REITs do not trade on an exchange and thus are not subject to public market volatility; however, the downside is that private REITs offer minimal liquidity and transparency. Additionally, private RE-ITs generally carry larger fee loads compared to their

Table 2: Correlation Matrix

Index	NCREIF Property	MSCI U.S. REIT (RMZ)	S&P 500	Barclays Capital U.S. Aggr.	DJCS Hedge Fund
NCREIF Property	--	--	--	--	--
MSCI U.S. REIT (RMZ)	0.25	--	--	--	--
S&P 500	(0.50)	0.77	--	--	--
Barclays U.S. Aggregate	0.36	0.00	(0.26)	--	--
DJCS Hedge Fund	(0.54)	0.55	0.82	(0.24)	--

Source: Bloomberg
10-year, quarterly return data through September 30, 2015.

public REIT counterparts.

Return Profile

Table 1 shows the historical returns for public REITs compared to an indicator of private commercial real estate values represented by the NCREIF Property Index; the broader U.S. stock market represented by S&P 500 Index; and the Barclays Capital U.S. Aggregate Bond Index.

Direct Real Estate Investment

Overview

An alternative to buying REITs is to invest directly in real estate in the private markets. Direct real estate investments include the outright purchase of real estate. This requires established and often costly infrastructure with on-the-ground personnel in target markets, an in-depth understanding of the local markets and regulations, and access to market intelligence, deal flow and capital.

Benefits and Risks

In comparison with investing in REITs, direct real estate investing requires day-to-day active management including leasing, property management and various other capabilities. Direct investments allow investors who have expert resources and conviction regarding specific markets and property types to pursue targeted opportunities that meet their specific risk/return parameters. Direct ownership of real estate gives investors control of the management and operation of the asset without having to pay the management and incentive fees prevalent in a private fund structure (described in the next section).

Direct investments involve a high degree of risk driven by three main factors. First, the investments (and thus, the corresponding risks) tend to be concentrated in a few large transactions, given the resource constraints associated with sourcing, analyzing, managing and exiting the investments. Second, the costs of direct investing may be high as real estate owners have limited resources and will often be required to outsource and pay fees for services such as property or asset management. Third, the private real estate market is not as liquid as public REIT shares; thus, the sales process is long, uncertain, and sometimes unsuccessful.

Return Profile

The NCREIF Property Index is the best example of an index that tracks direct investments in real estate, as it follows a very large pool of individual commercial real estate properties acquired in the private market for investment purposes. Note that returns can vary greatly depending on investors' experience, knowledge and skill in managing real estate, as well as overall market conditions and the timing of the investments.

Private Real Estate Investment Funds

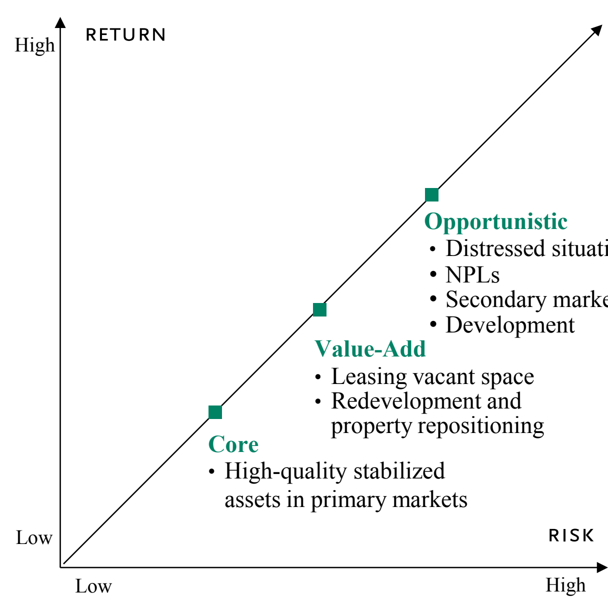
Overview

Investors can also gain exposure to real estate investments through commingled private investment funds. Funds typically pool the capital of multiple investors to invest pursuant to specific guidelines, which vary based on a particular fund's investment strategy. Funds are typically closed-end vehicles[3], which means that investors commit capital to the fund for investment over a designated period and do not have the ability to withdraw their capital. Investors in funds commit a fixed amount of capital and are required to fund capital calls up to their commitment amounts. The funds generally have a seven- to ten-year term consisting of a fixed investment period (typically two to four years) followed by a variable holding and liquidation period in which active asset management is carried out until the investments are sold. Investors are entitled to distributions on a pro-rata basis as investments are realized. Additionally, certain strategies distribute current income to investors. The investment manager is typically paid a management fee for managing the assets and has the ability to receive an incentive fee (also called "carried interest") if returns generated by the fund exceed a specified minimum rate of return (or "hurdle rate"). There are three main investment strategies in private real estate (see Figure 1).

Core

The core strategy is generally characterized by lower risk and lower potential return. Core managers typically

Figure 1: Perceived Risk/Reward



purchase assets that are fully or close-to-fully occupied on long-term leases, often in primary markets. They generally employ low to moderate leverage and target a premium return above that on the NCREIF Index, with a meaningful current income component.

Value-add

Value-add managers target a higher return than core managers by focusing on commercial assets that have the potential to generate medium to high current cash flow and allow the manager to add value through leasing and repositioning strategies. They tend to employ moderate levels of leverage and target an attractive risk-adjusted return consisting of a combination of current income and capital appreciation.

Opportunistic

The opportunistic strategy is characterized by higher risk and higher potential return, with a higher portion of the return coming from capital appreciation than current income. Opportunistic managers may target development deals, underperforming properties in less competitive markets, or properties with unsustainable capital structures. They tend to employ higher levels of leverage and pursue one or more of the following approaches:

Distressed: Investing in properties with unsustainable capital structures or high vacancy rates.

Property transformation/repositioning: Investing capital necessary to lease vacant space, change the use or rebrand the property. Examples include conversion from office to residential, retail redevelopment, and hotel rebranding.

Ground-up development: Constructing new properties. This tends to be the riskiest approach to opportunistic investing, as the process of obtaining entitlements for development and carrying out construction activities is complex and often unpredictable. Projects may require years to complete and therefore rely on assumptions regarding future demand and competitive supply.

Benefits and Risks

Fund structures offer investors access to portfolios of real estate investments managed by investment professionals. Investors have the option to allocate

Table 3: Overview of Real Estate Investment Strategies

	Public REITs	Direct Investments	Private Funds
Investors	• Individuals • Institutional investors	• Institutional investors • High-net worth individuals	• Institutional investors • High-net worth individuals
Return Profile	• Highly correlated with broad equity market • Return driven by asset quality and management team	• Performance primarily dependent on investors' skills and experience and access to competitively priced capital	• Index focus (core) • Absolute return focus regardless of market cycle (value-add, opportunistic) • Performance primarily dependent on fund managers' skill and experience and access to competitively priced capital
Asset Quality	• Institutional quality • Major markets • Stabilized	• Dependent on investors' capital availability, investment style, skills and experience	• Core strategy: high quality stabilized assets in major markets • Value-add/opportunistic strategy: underperforming properties often with unsustainable capital structure
Diversification	• Individual REIT stock is property type focused • Diversification through portfolio REIT equities or REIT mutual funds	• Concentrated investments and risks • Tend to be geographic or property type focused	• Usually diversified by property types and markets • Certain funds have geographic and property type focus
Liquidity	• High, shares can be bought and sold on exchanges	• Low to medium, private real estate is considered illiquid • Liquidity through time-consuming and unpredictable broker sales processes	• Low to medium, private real estate is considered illiquid; limited secondary market liquidity for ownership interest in the funds

capital among core, value-add or opportunistic strategies. Additionally, the range of the underlying investment strategies varies from specialized by property type (*i.e.*, multifamily, office, industrial, etc.) to unconstrained. Lastly, many managers offer region-specific strategies which give investors the ability to target their exposure depending on their specific risk/return parameters.

There are three main risks associated with private real estate funds. First, investors' ownership interests in private real estate funds are generally not liquid, as private funds are long-term investments and typically make no provision for investor redemptions. Second, relative to REITs or direct investments, investors may have less visibility into fund operations. The potential lack of transparency leads to the third main risk: alignment of interest. This visibility or lack thereof may be a source of concern in situations where there is less alignment of interest between investors and managers who may seek to maximize their own fees and profits by accepting undue risks at the expense of investors. Many fund investors lost significant amounts of capital during the financial crisis with managers who had used excessive leverage to pursue higher returns. Beyond structural considerations that vary from fund to fund, each private fund carries risks relating to investments it makes.

"Potential Benefits of Real Estate:
1) attractive risk-adjusted return,
2) hedge against inflation,
3) diversification"

WHAT IS THE CURRENT OPPORTUNITY IN THE REAL ESTATE MARKET?

Commercial Real Estate

Commercial real estate values in the United States saw tremendous gains through mid-2007, fueled mainly by the availability of cheap debt. New financial products and structured investments in the commercial sector provided additional sources of demand, perpetuating a cycle of more debt, higher values, better perceived credit profiles, and lower-cost funds. This lasted until the real estate debt markets became overheated, resulting in market crashes in both primary markets (e.g., New York, Boston, Chicago, Los Angeles, San Francisco, and Washington, D.C.) and secondary markets (e.g., Phoenix, Las Vegas, Atlanta, Tampa, etc.). At the height of the market in 2007, real estate values in primary markets had appreciated approximately 30% more than in secondary markets (in 2001 terms). Both primary and secondary markets saw trough valuations in 2009, and although both have rebounded from their lows, the degree of recovery has been uneven, with primary markets now well above their 2007 peak while secondary markets remain at or below 2007 levels. (See figure 2) We believe this "value gap" between primary and secondary market valuations will compress as capital avoids over-priced assets in primary markets and moves into secondary markets, which offer much less competition to buy. The real

Figure 2: Value Gap Between U.S. Primary and Secondary Markets

As of May 31, 2015
Source: RCA and Moody's Investors Service, LPS, Morgan Stanley, S&P Case-Shiller
[1] Primary Markets are the six gateway metropolitan areas: Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C.

estate investment markets are still experiencing the effects of the Global Financial Crisis, which dramatically changed the competitive landscape as many small investment firms failed, creating a void to be filled principally by larger private equity firms that focus on very large investments in primary markets.

> *"We believe this "value gap" between primary and secondary market valuations will compress to more normalized levels over time as the over valuation in core markets is exposed."*

Today, core assets in U.S. primary markets are benefiting from a "flight to quality" and trade at very low cap rates and expected returns because they are perceived as safe (this was also a widely held sentiment in 2006-07, prior to the market crash). As a result, investors pay healthy premiums to purchase fully-leased, prime assets in markets like New York and San Francisco, where cap rates are generally in the 3-5% range.

On the other hand, good properties in secondary markets – which in many cases are also higher growth markets like Orange County, California; Phoenix, Arizona; and Atlanta, Georgia – trade at meaningfully higher cap rates, especially with respect to assets with vacancy and, consequently, leasing upside. These assets can be leased to potentially provide 7-10% unlevered yields, which can be enhanced through the use of low-cost financing. We believe there is potential to generate attractive risk-adjusted returns employing an approach targeting cash-flowing assets with moderate value-add upside in secondary markets. Furthermore, we believe the attractive purchase prices and leasing upside that these assets offer provide better downside protection against a potential rise in interest/cap rates compared to fully-leased assets in primary markets, which by definition offer little in the way of contractual cash flow upside. We should note that this is a bit of an anomaly, as normally one would want to own the best assets in primary markets; however, since today these assets are "priced to perfection," we consider them unattractive for investment purposes, making core real estate a riskier strategy than many realize.

One of the most widely available opportunities we see in secondary markets is the ability to recapitalize what's referred to as "zombie" real estate, or properties with debt burdens that exceed their current market value. If the debt exceeds the property value, the property is "underwater" and in essence "owned by the lender." Assets typically suffer significant deterioration in these situations, as owners have no incentive to invest new capital to improve properties and acquire/retain tenants, resulting in further value erosion (see Figure 3). Oaktree has spent considerable time working with high-quality operators and borrowers on a number of off-market transactions where our opportunistic strategy has provided the much- needed "rescue" capital to address zombie real estate through recapitalization

Figure 3: "Zombie Real Estate"

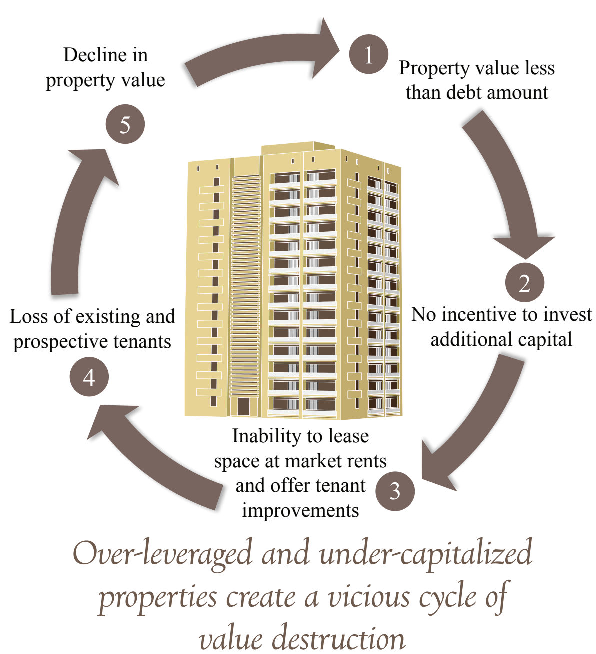
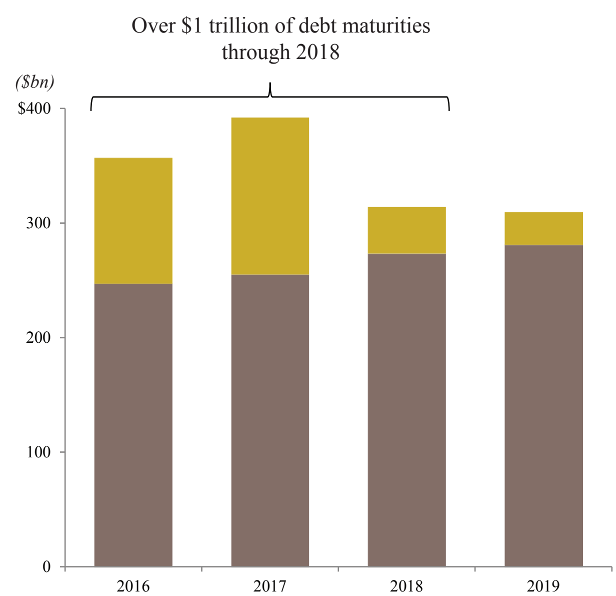
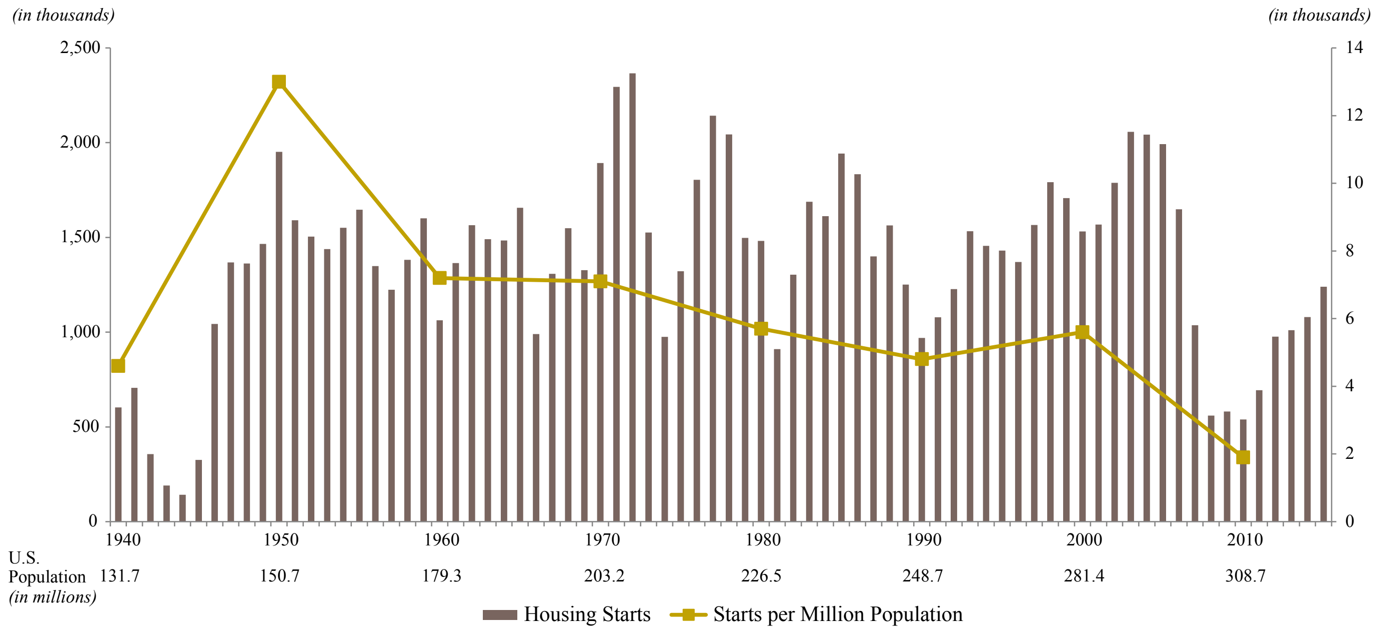


Figure 4: U.S. Commercial Real Estate Debt Maturities



As of June 30, 2015
Source: Trepp

Figure 5: U.S. Housing Starts



As of September 30, 2015
Source: U.S. Census Bureau

and value-add repositioning strategies.

Over $1 trillion of U.S. commercial outstanding real estate loans are scheduled to mature through 2018 (see Figure 4), and there is approximately €450 billion of distressed or non-core commercial real estate debt on the balance sheets of European financial institutions. As such, there have been and continue to be attractive opportunities to make equity and high-yielding debt investments to re-capitalize assets in connection with loan maturities, which will be significant in 2016 and 2017, when the 10-year fixed rate debt issued during the "bubble years" comes due.

Over the past six years, the opportunity in distressed real estate began with the onset of public securities becoming deeply discounted and evolved into rescue financing and distress-for-control/non-performing loan ("NPL") transactions. The flow of rescue financing and distress-for-control opportunities should continue, as significant amounts of debt have yet to be restructured pursuant to asset re-pricings at a low-enough basis to justify new investment in retaining and attracting new tenants. We believe that the confluence of zombie assets and pending debt maturities will drive the availability of opportunities for value-add and opportunistic strategies.

<u>Residential Real Estate</u>

We are in the midst of a robust residential recovery, but it is bifurcated. Similar to commercial real estate, the high-end residential market is well above its 2007 peak, while the low-end market remains stagnant. Residential real estate was deeply impacted by the overly aggressive securitization strategies of the 2005-07 era, and today it presents an interesting opportunity in light of long-term supply and demand fundamentals.

On the demand side, from 2000 to 2014, the U.S. population grew from around 280 million to nearly 320 million. The weak supply picture relative to demand has been compelling, a relationship that continues to hold true to this day. While the U.S. housing market was characterized by excess supply during the boom years, in 2010 new home starts fell to their lowest level since World War II, from 12,000 starts per million Americans to less than 2,000 even as the population reached more than double that of the 1940s. The yellow line in Figure 5 shows the magnitude of the per-capita collapse in housing supply. In 2010, the U.S. housing market was overleveraged and over supplied and still experiencing the effects of the collapse of the 2007/2008-price bubble. However, the underlying supply/demand fundamentals were not permanently broken. That year marked a 70-year low in per-capita housing production at 539,000 units, and despite the increased activity since then, annual starts remain at 1.1 million, well below the 1.4 million average that represents a "normal" level of home production.

Importantly, homeownership today stands at its lowest level since 1967, largely driven by the lack of credit and/or the credit destruction that took place during the downturn. There has also been a lack of household

Table 4: Oaktree Real Estate Strategy

Area of Investment Focus	Current Investment Strategy
Commercial (Opportunistic/Value-add)	• Acquire distressed real estate assets and recapitalize borrowers at discounts to peak value; • Implement value-add asset management through asset repositioning strategies and execution of leasing/business plans; • Harvest healthy cash-on-cash returns and exit stabilized assets.
Non-U.S. (Opportunistic/Value-add)	• Pursue primarily commercial transactions in non-U.S. jurisdictions; • Europe: emphasize commercial opportunities and NPLs; • Asia: focus on micro dislocations in Japan and Korea and position for credit dislocation in China.
Residential (Opportunistic)	• Partner with land developers and homebuilders in strong markets—small-scale, in-fill programs and lending platforms; • Acquire NPL pools at deep discounts to current home values; employ a range of collaborative workouts; securitize a critical mass of loan pools.
Commercial NPLs (Opportunistic)	• Focus on smaller portfolios, proprietary transactions and strategic opportunities with banks and special servicers;
Corporate (Opportunistic)	• Focus on limited proprietary off-market opportunities, including illiquid companies and platform build-ups.
Structured Finance (Opportunistic)	• Focus on volatility by purchasing during periods of illiquidity and selling during periods of momentum; • Utilize Oaktree's proprietary CMBS loan database and analytical infrastructure to capitalize on both pooled and individual loan opportunities.

formation due to (i) a lack of jobs, particularly in tertiary markets, and (ii) delays for Millennials in choosing to start families. As a result, we have seen an upturn in multifamily housing starts, which are up more than 50% from a year ago. We believe the current reduced level of homeownership (63.7% as of September 2015 per the U.S. Census) is temporary, and that just like housing starts, ownership will revert to the long-term average of approximately 65%. In an opportunistic context, there are many ways to capitalize on this, ranging from deeply discounted investments in land, land development, master-planned communities, distressed second home resort communities, single-family NPL portfolios, and homebuilding on a single-asset, joint-venture or corporate basis, as well as lending to homebuilders and fix-and-flip investors.

> *"We operate at the intersection of real estate and distressed debt, as our six specialized and synergistic areas of investment focus allow us to access attractive risk-adjusted opportunities in changing market conditions."*

WHAT IS OAKTREE'S APPROACH TO REAL ESTATE INVESTING?

For this Insights publication, we have focused on Oaktree's opportunistic and value-add real estate investment strategies. Our opportunistic strategy targets investments in real estate and real estate-related debt, companies, securities and other assets on a global basis. We focus primarily on distressed opportunities and over-leveraged assets in secondary markets, where the value proposition is better than it is in stabilized assets in core markets. These opportunities are generally smaller and off the radar of large fund managers, but too large for local high-net worth buyers. They are often in less competitive regions and property sectors.

We pursue opportunities by levering three layers of expertise: *(1)* specialization across six areas of investment focus (see Table 4); *(2)* strategic relationships with lenders, special servicers, high-quality borrowers and strategic operating partners who provide proprietary access to deal flow; and *(3)* integration and broad collaboration across the larger Oaktree platform. We have developed significant infrastructure through which to manage both large and small deals across all investment platforms, including strategic partnerships for our Commercial and Residential NPL platforms, proprietary operating partner relationships, and a robust property management function. We have built relationships with lenders, borrowers and operating partners while investing significant capital across a large number of transactions since the Global Financial Crisis.

We target investments in high cash-flowing assets and/or assets with leasing upside. These assets are often located in high-growth regions across the top 50 markets in the United States, as well as the United Kingdom, Western Europe and, to a lesser extent, Asia. With investment teams based in each of these regions, Oaktree's real estate group is organized in six separate yet overlapping and synergistic investment areas, where team members have deep, focused expertise and relationships while functioning in a highly collaborative way. The six areas of investment focus allow us to pivot to where the most attractive opportunities are at any point in time and avoid being locked into any particular type of real estate or region.

Our value-add strategy targets the same types of commercial properties as our opportunistic real estate strategy, but with a lower level of distress. Value-add assets usually involve some degree of transition and repositioning to unlock or enhance value, while opportunistic investments typically require significant repositioning, recapitalization, restructuring and workout.

CONCLUSION

The real estate market is large, diverse, and home to a number of investment strategies with varying benefits and risks. Through this Insights publication, we hope that your knowledge of the industry, investment opportunities, and Oaktree's approach has deepened. We look forward to speaking with you should you have any questions or feedback.

A BRIEF HISTORY OF OAKTREE REAL ESTATE

Oaktree's real estate group has expanded organically and evolved its investment capabilities through disciplined step-outs to capitalize on opportunities in a variety of market environments. We spent our first ten-plus years (1994-2005) investing largely in distressed commercial real estate, which has always been our "bread-and-butter" strategy. In connection with the departure of several team members in 2005, the senior investment management at Oaktree made the timely decision to sell a significant amount of the real estate portfolio, ultimately reducing our assets under management from $1.6 billion in 2005 to less than $1 billion dollars by the third quarter of 2007.

We did not raise another fund until after the arrival of John Brady (Oaktree's Global Head of Real Estate) in 2007. With John Brady in command, we made the strategic decision to expand the size of the dedicated real estate funds and the investment capabilities of the real estate group in advance of the onset of distress — thus positioning the real estate group to capitalize on attractive investment opportunities in the downturn that developed. This led to the establishment of the six areas of investment focus of our Opportunistic business: Commercial Real Estate, Non-U.S. Real Estate, Residential Real Estate, Commercial Non-Performing Loans, Corporate Real Estate and Structured Finance.

Our ambition of raising a $1 billion fund in 2008 was limited to $450 million by the Global Financial crisis. In 2010, we launched a strategy to purchase legacy commercial mortgage-backed securities. The deep platform that we built to manage this fund, and our success in buying performing real estate debt, led us to our next step-out, into what we call our Real Estate Debt strategy. This strategy began as a separate account in 2012 and then expanded with our first commingled fund in late 2013.

Since 2008, the real estate group has led 194 separate control transactions and 127 non-control debt investments, entailing $14.7 billion of invested capital on behalf of Oaktree funds. Today, we are able to capitalize on opportunities across the spectrum in both equity and debt on a global basis.

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ENDNOTES

[1] *Source: Green Street Advisors. Data as of October 2015.*

[2] *Source: Federal Reserve Board's Flow of Funds Accounts. Data as of June 2015.*

[3] *Core funds often are structured as open-end funds. In this paper, we will explore only closed-end vehicles.*

[4] *Authorised and regulated by the Financial Conduct Authority Registered in England, No. OC363917.*

[5] *Regulated by the Dubai Financial Services Authority, effective October 3, 2013.*

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