Memo to: Oaktree Clients Only

From: Howard Marks

Re: 2021 in Review

This past November, I wrote in *The Winds of Change* that 2021 was a strange year. On one hand, we had to cope with a number of highly unusual macro developments: the ongoing pandemic (eased by vaccines but then exacerbated by the Delta and Omicron variants), a booming economic recovery, surging inflation, and rising domestic and international tension. But on the other hand, it felt from day to day that each one was just like the one that came before. For me, this feeling of "no change" was heightened by the fact that we couldn't go to the office for most of the year and I couldn't travel very much for either business or pleasure.

The markets were strange, too. From April on, we experienced inflation like we hadn't seen in years. The strong economy had very positive implications for companies' creditworthiness, but that was offset by the risk to asset valuations posed by the possibility of rising interest rates due to high inflation, the outlook for which went from "transitory" to "not transitory." The S&P 500 Index returned an unusually high 29% in 2021, but the gains were concentrated in a small number of stocks, and many of the rest declined substantially. SPACs and meme stocks cooled off, but venture capital continued to boom. Money flowed into ETFs, the capital markets and alternative investments. Inflows to the latter created a hot environment for deals, meaning assets put up for sale commanded high prices. On balance, however, I'd say expectations for the future and attitudes toward risk were little changed over the course of the year.

Oaktree Performance

Unsurprisingly, this highly mixed environment produced wide-ranging results for our markets and our performance.

The benchmarks for our "straight fixed income" strategies, such as high yield bonds and senior loans, generally produced coupon-like total returns, meaning prices didn't rise or fall much. Our gross composite returns exceeded their benchmarks in every case, more or less offsetting our fees. (I want to note here that these formerly "alternative" asset classes – high yield bonds were considered highly exotic when I began my involvement with them in 1978 – have become more mainstream and their markets much more efficient. Thus, it has become harder to beat the benchmarks in these markets, and the margin of superiority is smaller.)

Strategy Composite	Gross Return	Net Return	Primary Benchmark	Benchmark Return
U.S. High Yield Bonds	5.48%	4.95%	FTSE High-Yield Cash-Pay Capped	5.15%
European Hi Yld Bonds	4.38	3.86	ICE BofA Global Hi Yld European	3.89
Global Hi Yld Bonds	5.69	5.16	ICE BofA Non-Fin Dev Mkts Hi Yld	5.10
U.S. Senior Loans	6.21	5.68	Credit Suisse Leveraged Loan [local]	5.40
Eur Senior Loans - euro	5.02	4.50	Credit Suisse Western Euro Lvgd Loan	4.63

Two of our three convertibles composites trailed their more equity-sensitive benchmarks on both gross and net bases. This is often the case when equities rise, as our portfolio betas are customarily well below those of the benchmarks. On the other hand, our High Income Convertibles strategy put up strong returns both in absolute terms and relative to its high yield bond benchmark.

Strategy Composite	Gross Return	Net Return	Primary Benchmark	Benchmark Return
Global ex-U.S. Converts	-0.84	-1.33	Refinitiv Global Focus ex-US Cvt Ind	-0.08
Global Convertibles	-1.46	-1.95	Refinitiv Global Focus Convert Ind	-1.11
High Income Converts	7.56	6.95	FTSE High-Yield Market Index	5.39

One of Oaktree's most significant innovations in the last several years is our Global Credit strategy, which actively allocates capital among all of our liquid credit strategies. In 2021, its return provided a meaningful increment relative to its custom benchmark, which is a blend of high yield bonds and senior loans, both U.S. and European.

Strategy Composite	Gross Return	Net Return	Primary Benchmark	Benchmark Return
Global Credit	6.19%	5.51%	Custom Benchmark	5.26%

Given the difficult environment in 2021 for developing countries, especially China, the emerging markets equities benchmarks showed losses. Our EME composite produced a smaller loss, with the increment nearly paying our fees.

Strategy Composite	Gross Return	Net Return	Primary Benchmark	Benchmark Return
Emerging Mkts Equities	-1.95%	-2.73%	MSCI Emerging Markets Index Net	-2.54%

Our value-add credit strategies produced significant absolute returns, which made them standouts in 2021's low-interest-rate environment.

Strategy Composite	Gross Return	Net Return	Primary Benchmark	Benchmark Return
Strategic Credit	12.52%	9.76%	Credit Suisse Leveraged Loan	5.40%
Emerg Mkt Debt Tot Ret	7.35	6.02	JP Morg Corp Broad CEMBI Div HY	2.05
Structured Credit	10.13	9.42	Custom Benchmark	10.52
Real Estate Debt	10.67	9.96	Bloomberg Indices U.S. CMBS 2.0	9.82

Our more aspirational evergreen funds generated far higher returns. That description applies equally to our Value Opportunities Fund, the limited-lockup version of our Global Opportunities Funds; our Value Equities Fund, with its concentrated portfolio of value stocks; and our Real Estate Income Fund, which primarily invests in income-producing real estate.

Strategy Composite	Gross Return	Net Return
Value Opportunities Fund	33.01%	24.45%
Value Equities Fund	35.69	26.42
Real Estate Income Fund	32.77	28.17

I'm extremely proud of the performance of our closed-end fund strategies. Note that some of these returns were augmented by the funds' use of subscription lines, which I'll discuss in depth later.

Strategy Aggregate	Gross Return	Net Return
Global Opportunities	36.71%	29.86%
Real Estate	20.36	17.72
Special Situations	35.74	32.31
European Principal	13.27	8.91
European Private Debt	15.88	11.16
Power	143.75	139.85
Infrastructure	56.65	49.86
Mezzanine	20.43	13.39
Emerging Markets Opportunities (Debt)	4.58	2.31

Finally, our latest creation is Oaktree's Absolute Return strategy. Here we employ active management of investment grade securities in pursuit of returns above those available on cash. We clearly achieved that goal in 2021.

Strategy	Gross Return	Net Return	Primary Benchmark	Benchmark Return
OAR Core Aggregate	0.94%	0.54%	ICE BofA 3-Month U.S. Treasury Bill	0.05%

While some of our returns were much higher than I would normally expect, 2021 was a very typical Oaktree year in terms of the pattern of returns: some okay, some good and some out of this world . . . with very few disappointments. Overall, the returns represented very good news in a world beset by a pandemic, inflation and political uncertainty. I'm happy with this total picture and would gladly take it every year going forward.

A Look at the Long Term

Given the investment ramifications of the pandemic over the last two years, I'm going to devote this traditional component of my annual review to a discussion of Oaktree's Global Opportunities strategy.

As you may know, Bruce Karsh joined my group at TCW in 1987. A former lawyer, he had worked as Eli Broad's assistant for special investments at SunAmerica and had been involved in some distressed investments, including the debt of a building materials producer that had been bankrupted by asbestos litigation. On that basis, Bruce approached me about forming a fund to invest in distressed debt, and we organized one in 1988, possibly the first such fund from a mainstream financial institution.

Over the years, at TCW until 1995 and since then at Oaktree, we've formed 21 of these funds under Bruce's leadership, with committed capital exceeding $68 billion. We're proud to report that their dollar-weighted aggregate IRRs are 21.9% before fees and 16.0% after. This record includes (a) funds that invested during the crises of 1990-91, 2001-02, 2008-09 and 2020 – all with net IRRs ranging from 16.5% to far more – and (b) the balance that invested in non-crisis environments, earning lower but still meaningfully positive net returns. We consider the Global Opportunities group's track record very Oaktree-like: great when conditions were most favorable for the strategy but still good when they were less so.

Importantly, these funds' high returns aren't attributable to a few big winners. Rather, they all show high batting averages – the vast majority of individual investments have been profitable – and an absence of big losers. Thus, in addition to producing high IRRs, these funds exemplify adherence to the two most important components of Oaktree's investment philosophy: risk control and consistency.

Since the funds' performance speaks so eloquently for itself, I'll turn to the way the group has functioned. In short, I couldn't be prouder of Bruce's leadership of the group in his 34 years and counting, and of what he and his team have accomplished:

- **The funds have been sized for clients' benefit, not to maximize our management fees.** In each cycle, book-ended by the four crises we've invested through, the bigger funds have had the highest returns. This is true because the high-return funds we raised for each crisis were up-sized appropriately. This is counter-intuitive: normally one would expect that (a) ultra-high returns in one fund would lead to the raising of a larger succeeding fund and (b) the latter would invest under less propitious conditions and produce a lower return. In contrast, the Global Opportunities team has followed its most successful crisis-era funds with smaller ones that preserved its ability to achieve decent returns in less-rewarding environments. More capital could have been amassed on these occasions, but we insisted on raising less.

- **Capital has been deployed extremely aggressively when appropriate.** Rather than shrinking back in the worst of times, this team has always turned aggressive and invested disproportionate amounts of capital on the way to, at, and immediately after the crisis lows. I look back with pride at the average of $400 million per week invested in the last 15 weeks of 2008, during the worst of the Global Financial Crisis. This well-timed aggressiveness was seen again in the first four months of the pandemic, March through June 2020, when the group invested $3.6 billion (not counting commitments to invest that closed later).

- **The funds' tactics have kept up with the times.** As the years have gone by, the tactics employed by the funds have morphed in important ways. Investment areas that may have been viewed as bold innovations in the past are now mainstays: non-performing bank loans, distressed mortgages, European debt, debt backed by hard assets, and hard assets themselves. Clients usually want to know that we'll "stick to our last" and our results will be predictable. But in each fund, we've applied tactics that were different from those of their predecessors and in many cases were not envisioned when the funds were organized. We've consistently evolved while still operating within our charter, and this has enabled us to maintain the funds' excellence. These changes have been necessary, and they've been successful.

- **Leadership has been developed internally.** In the early 1990s, Bruce and Richard Masson (Bruce's first teammate and later an Oaktree co-founder) hired the second generation of top talent. Those hires moved on many years ago, but Bruce's current co-portfolio managers – Bob O'Leary and Pedro Urquidi – joined us in the early 2000s and they hired their regional coheads over the past decade or more. Transitions have always gone smoothly, allowing us to maintain our high standard of performance. We've never had to go outside Oaktree for senior talent, and we're confident that the next generations of leaders are already in-house.

We were thrilled that our record of accomplishment and the obvious talent of the funds' managers allowed us to initiate fundraising for Opportunities Fund XI in the heat of the Covid-19 crisis and eventually amass almost $16 billion of capital commitments, a record for a fund of its kind. Exemplifying the process described above, the tactics of Opps XI have also evolved from what was initially expected. Given governments' and central banks' aggressive stimulus actions, distressed debt has been in surprisingly short supply over the last 20 months. Thus the fund has shifted its emphasis and increasingly focused on providing capital to companies that need large amounts quickly and can't access the traditional capital markets on the schedule required. We're also quite active in Asia and have made some very substantial investments there.

Opps XI is roughly 165 times (!) the size of our first distressed debt fund, but I think it's performing just as well relative to its environment, thanks to the group's high standards, outstanding personnel and constant willingness to evolve its tactics with the times. The fund has already invested most of its committed capital and shows since-inception IRRs through December 31, 2021 of 58.0% gross and 41.8% net. (Note that these results have been very much aided by the use of a subscription line; see below for elaboration. To put this into perspective, we estimate the fund's gross "investment-level return" – before reduction for fees and enhancement by subscription-line financing – to be just under half the gross IRR . . . but still nearly 30%.)

In 1988, our first distressed debt fund was heretical, and people asked, "What? You're going to buy the debt of companies that are bankrupt or destined to become so?!?!" We were among a very small number of possible buyers for distressed debt, something that made it relatively easy to scoop up bargains. There's no doubt that over the intervening years, the market for distressed debt has attracted more competitors and capital and become more efficient. I consider these types of developments inevitable in profitable markets.

Future funds can't expect to achieve the returns we earned in the first 15 years, and the margin of superiority of these funds may well be smaller in the future than it was in the past. But I believe the Global Opportunities group's strong talent, broad reach, adherence to past practices, and evolution of tactics will permit it to continue to focus on delivering exceptional performance for its clients.

<u>The Impact of Subscription Lines</u>

In 2006, at Bruce Karsh's urging, I wrote a memo I called *You Can't Eat IRR*. While it was quite analytical and contained more numbers than a typical memo, the bottom line was quite simple: a fund can report a high IRR and make a lot of money . . . or it can report a high IRR and make very little money. Thus, the internal rate of return metric alone doesn't enable us to assess the performance of a fund manager. A lot more has to be known, primarily the percentage of committed capital that was called and how long it was kept invested.

A manager can call a little money, make one fabulous investment, distribute the proceeds, and report a very high IRR. That's true even if the investment is held for a short time, since IRR is an annualized figure. A modest percentage increase on an investment held for a month can result in an astronomical annualized return but very few profit dollars. It's for that reason that I said you can't eat (or spend) IRR.

MOIC, or multiple of invested capital, is another metric that can be useful in determining whether a manager performed well. It compares the dollar profit earned with the total capital that was called, and, as such, it solves some of the deficiencies of IRR. However, if two managers organize $1 billion funds and both have $900 million invested at the peak, the "IC" in their MOICs will be the same. And if they both generate $600 million of profits, they'll both report MOICs of 1.67 (1 + $600mm/$900mm). But if the first manager held onto her capital for six years and the other for two years, they clearly didn't perform the same. The latter made the same profit using less capital on average, so many would say he did the better job. Because there's no aspect of time in the calculation of MOIC – no annualization – this metric doesn't tell you how long the managers kept the money that produced the profit. Thus, MOIC should be used in conjunction with IRR. But what if one fund has a higher IRR and the other has a higher MOIC, which can easily happen? In that case, it can be hard to say which performed better.

In fact, MOIC has further shortcomings. Let's consider two managers – one who raises a $1 billion fund, calls $100 million of it, and earns $50 million of profit – and another who raises a $1 billion fund, calls the whole $1 billion, and earns $500 million of profit. It's clear the latter did a better job, because he kept far more money profitably employed and thus earned far more dollars of profit for his investors. But both will – truthfully – report the same MOIC of 1.5: (1 + $50mm/$100mm and 1 + $500mm/$1,000 million). So, clearly, you can't eat MOIC either, since it ignores the critical question of whether the committed capital was put to work as the LPs had hoped. In this case, this metric goes easy on a manager who invested disappointingly little of his committed capital. Thus, even IRR and MOIC together aren't necessarily sufficient to produce a correct conclusion.

MOCC – the multiple of committed capital – may be of assistance, since it takes into account how much of the investors' capital commitments the manager put to work. The two managers mentioned above would have MOCCs of 1.05 (1 + $50mm/$1,000mm) and 1.50 (1 + $500mm/$1,000mm), making clear the difference between their accomplishments. However, we have again held something constant: the 50% overall gain on the capital that was invested. What if the first fund only held the capital for six months and the second for ten years? MOCC's failure to account for the length of the period for which the capital was invested is again a deficiency. Or what if the first fund had earned $100mm of profit on its $100mm of investments (as compared to the second fund's $500mm of profit on $1,000mm invested)? In that case, the IRR <u>and</u> MOIC on the first would be higher than those on the second, even though the former's MOCC was much lower.

So there are several factors at play when assessing drawdown fund performance:

- the percentage of committed capital put to work
- the period for which it was kept at work on average
- the annual rate of return on the invested capital
- the absolute dollars of profit

If everything's different between two funds – and one fund looks better on some metric(s) and worse on others – then we still can't tell which manager did the better job. Thus, as the 2006 memo made clear, no one metric is sufficient and, even in combination, multiple metrics may not necessarily be up to the job. No, you certainly can't eat IRR, which was the most universally used metric in 2006 and still is. But today, the picture has been made even murkier.

Around 10-15 years ago, some drawdown funds began to use subscription lines collateralized by their LP commitments. I think managers did this at first primarily to bridge capital investments and pay fees and expenses, and thus avoid having to make frequent capital calls. But the beauty of being able to replace LP equity capital with bank borrowings soon became clear to GPs: in short, if a given set of profitable investments are made but the calling of equity capital is delayed, the equity capital will be at work for a shorter period of time, and the IRR – which is a return-on-equity metric – will thus be enhanced. When considering sub lines, it's essential to recognize two things:

- I don't view them as providing "leverage" per se, since their availability doesn't enable a fund to make investments costing more in total than the capital that has been committed to it; and
- assuming the availability of a sub line doesn't change the investments made, its use doesn't have any effect on the aggregate dollar profit achieved from its portfolio.

The **key** thing to note is that making a given amount of dollar profit while employing less equity does wonders for IRR but doesn't make LPs any richer. In fact, on balance, it can make them poorer, because (a) it requires them to pay interest on the sub line borrowings and (b) it might cause them to pay incentive fees on funds whose IRRs ex. sub lines would have been below their hurdle rates. Yet sub lines are very popular, since they can make both GPs and LPs look better to their constituencies. As a result, GPs who may have been latecomers to sub lines – like us – have had to adopt them for competitive reasons.

Just as with pre-sub-line funds, there are additional questions to ask:

- What percentage of investments were bought using subscription capital as opposed to LP equity, and what was the ratio of the maximum subscription line balance to the committed capital?
- For how long was the capital line balance outstanding before being repaid?
- Did the availability of low-cost subscription line borrowings alter the investments made and/or the percentage of committed capital eventually put to work?

Let's say we consider two funds that are exactly the same in terms of the cost of their investments, the ratio of the invested cost to the committed capital, and the ultimate profitability of the investments. They can even make the same investments and hold them for the same period of time. Yet, they can report drastically different IRRs depending on (a) how much of the cost is funded through sub lines as opposed to LP capital called and (b) how quickly the sub lines are repaid.

Given the widespread use of subscription lines and the subsidiary questions they introduce, I think IRR is even less meaningful today than it was in 2006. In fact, I would go so far as to say that IRR – especially early in a fund's life – approaches meaninglessness. The IRRs for two funds making different use of subscription lines may well defy comparison. Over time, as LP capital is called and lines are repaid, the reported IRR will move in the direction of what it would have been without the use of sub lines. But, everything else being equal and assuming the returns on the underlying investments exceed the sub line cost of capital, the fund making proportionally greater use of subscription line capital will always report a higher IRR but no increase in dollar profit vis-á-vis the other.

Oaktree improves upon this situation by looking at what we call "gross investment-level return." This is the return on the portfolio holdings themselves, calculated before the addition of the benefits from subscription line financing or the subtraction of fees and expenses. I mentioned it above in my discussion of Opps XI's performance, and we think it's better than any of the other parameters taken alone.

Oaktree Developments

Just as the last two years have been an excellent period for Oaktree's investment performance, so too have they been good for growth. Between fundraising and returns, Oaktree's assets under management (excluding our share of DoubleLine's assets) rose in 2021 from $121 billion to $139 billion, a gain of

15%. 2020 and 2021 together were the two best years for fundraising in Oaktree's history, and AUM increased by $44 billion, or 46%.

Opportunities Fund XI raised most of its nearly $16 billion in 2020, but its final close this past November brought in the last few billion. Real Estate Opportunities Fund VIII also held a final closing, capping a successful raise. Our open-end strategies also reported good inflows, especially Global Credit. Importantly, despite these additions, we remain confident that the AUM in each strategy is at a level that won't reduce our ability to be selective or impede our performance going forward.

The measures we employed to cope with the pandemic in 2020 had become old hat by 2021. Zoom continued to serve us very well, and our operations were highly efficient. In addition, we were able to make a large number of excellent hires; we achieved a decent level of employee retention in this unsettled environment; and a large number of Oaktree people were promoted in terms of title and/or elevated to Co-Portfolio Manager or Assistant Portfolio Manager status.

Notably, the personnel actions described above were accompanied by improving levels of diversity at Oaktree. Our firm still isn't where we want it to be in this regard, but we're working hard to get there and the results are coming gradually. This is an area of genuine focus for us. Below are two important steps we've taken in this regard:

- Jerilyn Castillo McAniff was selected early in 2021 to be our first full-time head of Diversity & Inclusion. Jerilyn, who was a key member of our High Yield Bond group for many years, is devoted to this area and very talented. I've worked with her extensively, ever since D&I was a part-time activity for Oaktree employees interested in effecting change, and I was impressed by her ability. Now that she's applying herself full-time, the level of activity has been turned up and we're beginning to see results.
- Jerilyn, her Oaktree teammates and her counterparts at Ares and Apollo worked very hard to construct AltFinance, a program designed to attract students at Historically Black Colleges and Universities to alternative investing and support their growth both financially and educationally. They created initial relationships with four HBCUs, brought the Wharton School aboard to develop the curriculum and Management Leadership for Tomorrow to oversee career development, and recruited a terrific CEO in Marcus Shaw. The three firms have pledged a total of $90 million to the effort, and I'm thrilled to say it's getting off the ground as I write.

Another area of importance to Oaktree is responsible investing. From our start in 1995, Oaktree has maintained that achieving excellence in investing entails more than meeting a target return. It also demands that we uphold our responsibilities to our many constituencies and always operate on "the high road." In the years around the turn of the twenty-first century, I think the view reached its apex that the free market could be counted on to produce optimal solutions and the corporation's responsibilities started and ended with making money for its owners. But subsequent developments – such as the bursting of the Tech Bubble, the Global Financial Crisis and the increasing awareness of social inequities – have caused many to view corporate responsibility more broadly and have convinced many of the importance of that high road.

Thus, Oaktree has formalized its commitment to responsible investing, with Priya Prasad Bowe at the head. Our efforts continued and strengthened in 2021: attention to environmental, social and governance matters received increased focus, and procedures for evaluation were built into, or reinforced in, every group's investment process. We feel we're continually upping our game in terms of both our investment and societal responsibilities.

I'm also pleased to report that Oaktree's relationship with Brookfield is going swimmingly. Our two firms operate independently but cooperate intensely. We're sharing resources and providing counsel to each other, and Oaktree has been the recipient of substantial investment from Brookfield. We entered into this partnership because we were excited about the cultural fit and potential benefits. Those expectations certainly are being exceeded.

Finally, it wouldn't be an Oaktree "year in review" without a report on the baby count. In 2021, 46 babies were born to Oaktree employees, bringing the number born since our inception to 874. It's great to see that, despite the pandemic, our colleagues have remained productive on <u>multiple</u> levels.

<u>Positioning for 2022</u>

Over the last few years, it has become my practice to decline to answer standard media questions such as "are you a buyer or a seller?" and "in or out?" First, as I indicated in *Selling Out* last month, there are very few occasions on which it makes sense to try to time the markets and very few people with the skill to do so profitably; it's far more important to be in the markets over the long run. Second, as bottom-up investors, Oaktree's main emphasis is on selection within our markets, not profitably altering our deployment of capital.

Thus, I tell the TV anchors and reporters, if one wants to respond to market conditions, the best way is by deviating when appropriate from one's usual ratio of aggressiveness to defensiveness. And where do I stand in that regard today? Right around normal, or perhaps slightly biased toward defense via increased emphasis on selectivity and downside protection. In short, I think the considerations are too well balanced – although perhaps not perfectly so – to make getting out (or getting too defensive) the right thing to do.

I recently got a note from a reader of my memos, arguing that conditions call for "lightening up." Here's how I responded:

> There's nothing wrong with your thinking, and I can't quibble with your conclusion. For anyone who's focused on avoiding declines, the result should be some selling/hedging/risk reduction.
>
> However, that by necessity introduces the risk that the economic decline you see ahead doesn't materialize. This could occur because inflation backs off as stimulus-swollen demand abates along with the supply-chain challenges it has presented, meaning the Fed wouldn't have to raise interest rates, reverse quantitative easing and crunch the economy to the extent you foresee. If that turns out to be the case, there might instead be market gains that you fail to participate in. That's always the tradeoff, of course.
>
> There's also the risk that you adroitly get out and avoid a decline that does materialize, but then you fail to get back in. These are the themes I discussed in *Selling Out*.
>
> My own view is that for a long-term investor, the considerations are too much in balance to call for lightening up. But for someone with a shorter-term orientation or a pronounced preference for decline-avoidance over gain-participation, some risk reduction makes sense.
>
> On one hand, I've said today's prices aren't irrational relative to interest rates. On the other hand, we all believe interest rates are going to go up, meaning asset prices will come down. But on the third hand (if only we had three hands), if everyone thinks long-term interest rates are going to go

> up soon, why haven't they done so already (why hasn't the market incorporated rational expectations)?
>
> There have only been about a half-dozen times in my life when views on timing have been rewarded. I don't feel strongly enough about the short-term future to believe this is another. But I certainly could be wrong (as always). I guess it all comes down to how you feel about your own ability to time markets and which kind of error you prefer to be exposed to.

Elevated valuation parameters, high inflation and the prospect of rising interest rates argue for defense. But the economic recovery that's underway and the possibility that inflation will subside argue against it. And, of course, this year we've already seen a meaningful correction of asset prices and investor psychology. The balance among these factors is the reason for my nearly normal risk stance here in 2022.

February 28, 2022

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Subscription Line Financing*: Calculations of net and gross IRRs in respect of investment and performance data included and/or referred to herein are based on the payment date of capital contributions received from limited partners, even in instances where a fund or account utilizes borrowings under a subscription-based credit facility. The use of a subscription-based credit facility (or other fund-level leverage) with respect to investments may result in a higher reported gross IRR and net IRR at the fund-level than if such subscription facility (or other fund-level leverage) had not been used and instead the investors' capital had been contributed at the inception of each such investment. This is due to the fact that calculations of gross IRR and net IRR are based on the relationship between investment gains and partners' capital employed. Therefore, if a subscription facility is used to fund an investment, capital may be called more slowly from the limited partners to repay such borrowings, which would shorten the time between such contribution and distribution and consequently increase gross IRR and net IRR.*

Comparative References to Benchmarks or Indices: *We have presented herein the indices for informational purposes only as a representation of the performance of certain market asset classes. And, Oaktree is not aware of any benchmarks that, in Oaktree's opinion, provide a basis for measuring the performance of the relevant funds, particularly in light of the managers' investment philosophy, strategy and implementation. The unmanaged market indices presented are provided for comparative purposes to represent the investment environment existing during the time periods shown. The indices are considered to be fully invested and includes the reinvestment of income where applicable, and its performance has been linked in the same manner as the Composite. The index returns do not include transaction costs, investment management fees, or other expenses.*

Comparative Indices:

Global Credit	*The 50/50 Global High Yield and Senior Loan Index represents 50% ICE BofA Merrill Lynch Non-Financial Developed Market High Yield Constrained (USD Hedged) Index, 40% Credit Suisse Leveraged Loan Index and 10% Credit Suisse Western European Leveraged Loan Index (USD Hedged). Note: ICE BofA Merrill Lynch Non-Financial Developed Market High Yield Constrained (USD Hedged) Index is a sub-index that contains all securities in the ICE BofA Merrill Lynch Global High Yield but caps issuer exposure at 2%.*
Strategic Credit	*Credit Suisse Leveraged Loan*
Emerging Markets Debt Total Return	*JP Morg Corp Broad CEMBI Div HY*

Structured Credit	*Custom Benchmark: 50/50 CLO/CMBS Index represents 50% JP Morgan CLO BB Post-Crisis Index and 50% Bloomberg Barclays U.S. CMBS 2.0 Baa Index.*
Corporate Structured Credit	*JP Morgan CLO BBB Post-Crisis*
Real Estate Debt	*Bloomberg Indices U.S. CMBS 2.0*

Calculation of Assets Under Management: *References to total "assets under management" or "AUM" in this memo represent assets managed by Oaktree and* Excludes the proportionate amount of *the AUM reported by DoubleLine Capital LP ("DoubleLine Capital"), in which Oaktree owns a 20% minority interest. Oaktree's methodology for calculating AUM includes (i) the net asset value (NAV) of assets managed directly by Oaktree, (ii) the leverage on which management fees are charged, (iii) undrawn capital that Oaktree is entitled to call from investors in Oaktree funds pursuant to their capital commitments, (iv) for collateralized loan obligation vehicles ("CLOs"), the aggregate par value of collateral assets and principal cash, (v) for publicly-traded business development companies, gross assets (including assets acquired with leverage), net of cash, and (vi) Oaktree's pro rata portion (20%) of the AUM reported by DoubleLine Capital. This calculation of AUM is not based on the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts managed and is not calculated pursuant to regulatory definitions.*

Third-party Information: *Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Oaktree believes that the sources from which such information has been obtained are reliable; however, Oaktree cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based.*