

# Firm/Strategy Update: Oaktree | Various Strategies



Le, Son  
Analyst


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*Son Le, Pat Burkett, and Kevin Buskirk had a Zoom meeting with Reema Mukheja, Laura Von Broker, Katherine Vu, Ariel Cohen, Kenya Williams, Candace Myung, on 4.3.2023*

## 1.Key Takeaways:

- **Opportunities Fund Xb:** +2.5% net gain in Q4 2022, mainly driven positive performance of Hartree (energy trading platform) and Garrett Motion (turbo technology provider). The Fund is now officially in its liquidation phase, so

Manager will only make follow-on investments or close investments that they initiated during the investment period.

- **Opportunities Fund IX:** +15.4% net gain in Q4 2022 – strong quarter return, although it is still the worst performing Opportunities Fund (7.7% net IRR and 1.7x net MOIC since inception) over 30+ years of the firm’s history. Given its current fund life (end of liquidation period with a potential 5-year extension), the Fund will focus on monetizing its positions for the upcoming years.
- **Emerging Markets Opportunities Fund II:** +10.2% net gain in Q4 2022, driven by positions in Argentina and China and the rebound in global credit markets. While the Fund’s recent performance is below the initial target, the Manager remains optimistic about the outlook of the Fund and its portfolio companies.
- **Real Estate Opportunities Fund VI:** -3.6% loss in Q4 2022, driven by write-downs of several investments. The rising interest rates have slowed activity in the capital markets and the disposition activity; therefore, the Manager expects that the Fund’s realization timeline will be longer than previously communicated. Some investments may need three to four years to be ready for realization.
- **Oaktree Special Situations Fund:** -2.5% loss in Q4 2022, primarily attributable to the write-down of Neovia Logistics and the mark-to-market decline in the value of SunOpta. Despite the weak performance (2.6% net IRR and 1.1x net MOIC since inception) driven by COVID impacts and the volatility of the public market, the Manager believes that the portfolio companies still have strong long-term fundamentals and will rebound significantly once the broad markets recover.

## 2. Strategy Update

- **Opportunities Fund Xb:** (2018 vintage):
  - Oaktree Opportunities Fund Xb produced gross gains of nearly \$1.0 billion in the calendar year of 2022. During the fourth quarter, the Fund reported a 3.5% gross gain, bringing the YTD gross return to 13.2% and the since-inception net IRR to 15.9%. The Fund received \$871 million in proceeds during the fourth quarter, primarily from sales and repayments.
  - The Fund is now officially in its liquidation phase, so Manager will only make follow-on investments or close investments that they initiated during the investment period. However, the Manager expects to put a significant

amount of Opps Xb's capital to work in the first nine months of 2023, given that it began completing diligence on multiple deals before the investment period ended on January 1.

- During the fourth quarter, the Fund deployed \$797 million across 95 investments (25 new holdings and 70 follow-on investments). At year-end, the Fund's deployment since inception totaled \$16.8 billion across 346 investments, and the amount invested was 84%, with an additional 13% committed for investment.
  - As of December 31, the Fund had drawn 65% of capital commitments. It called another 10% this month and will leave at least 10% of unfunded capital commitments earmarked for the next few years of the liquidation phase, as Opportunities funds have historically had considerable capital needs during this time due to, among other things, platform investments, workouts and follow-on opportunities.
  - The Fund's investments are currently spread across six of our seven target categories: platform investments (42%), distressed liquid credits (27%), opportunistic credit solutions (13%), rescue financings (12%), loan portfolios (5%), and exit financings (1%).
  - Performance metrics:
    - Net IRR (since inception): 15.9%
    - Net MOIC (since inception): 1.5x
    - % Drawn: 65%
    - % Distributed: N/A
    - Committed Capital: \$8,563 Million
    - Fund NAV: \$8,363 Million
    - Investment Period End Date: 1/1/2023
- **Oaktree Opportunities Fund IX, L.P** (2013 vintage):
    - During the fourth quarter, the Fund reported a 15.8% gain, bringing its year-to-date time-weighted return to 35.3% (both figures are before fees and expenses). This increased the Fund's since-inception internal rate of return by a full percentage point to 7.7% per year (net of fees, expenses, and potential incentive allocation).
    - As of December 31, the Fund had distributed 77% of its contributed capital, and Limited Partners' remaining net asset value stood at \$4.4

billion, or approximately 89% of contributed capital. Thus, the Fund's net multiple of capital increased to 1.7x at quarter-end.

- The Fund is near the end of the liquidation period; however, it still has \$4.4B of NAV (out of \$5M committed capital), which is significantly high given its fund life. Therefore, the Manager is trying to accelerate the liquidation process this year. The Fund is likely extending its fund life to have more time for liquidation.
  - Performance metrics:
    - Net IRR (since inception): 7.7%
    - Net MOIC (since inception): 1.7x
    - % Drawn: 100%
    - % Distributed: 77.5%
    - Committed Capital: \$5,066 Million
    - Fund NAV: \$4,366 Million
    - Investment Period End Date: 1/1/2017
- **Emerging Markets Opportunities Fund II** (2018 vintage):
    - In the fourth quarter, the Oaktree Emerging Markets Opportunities Fund II posted a return of 11.0% gross and 10.2% net, bringing the full-year time-weighted loss to 8.0% gross and 10.3% net. The Fund ended the year 71% drawn (net of recallable distributions). The Fund's strong fourth quarter performance was driven by positions in Argentina and China and the rebound in global credit markets.
    - While the Fund's recent performance is below the initial target, the Manager remains optimistic about the outlook of the Fund and its portfolio companies and notes that EM asset prices suffered across-the-board in 2022, with the EM high yield index and EM sovereign bond index recording losses of 10% and 18%, respectively – the worst total returns for these indices since 1999, according to Goldman Sachs. If volatility increases, the Manager believes the Fund will be well equipped to take advantage of dislocated prices, given its significant undrawn capital and high cash-on-cash yield.
    - On the personnel front, Pedro Sanchez-Mejorada was promoted to Co-Portfolio Manager of the Emerging Markets Opportunities and Emerging Markets Debt Total Return strategies, effective February 1, 2023. This

promotion recognizes Pedro's significant contribution to performance through his 20+ years of credit analysis, valuation and risk management expertise, and growing leadership responsibilities. Pedro has worked in partnership with Julio Herrera (current PM) for over a decade. He joined Oaktree in 2013 from Goldman Sachs, where he led the firm's emerging markets trading business for Latin American fixed income.

- Performance metrics:

- Net IRR (since inception): -2.1%
- Net MOIC (since inception): 0.9x
- % Drawn: 70.8%
- % Distributed: N/A
- Committed Capital: \$344 Million
- Fund NAV: \$202 Million
- Investment Period End Date: 6/30/2024

- **Real Estate Opportunities Fund VI** (2012 vintage):

- In the fourth quarter, the Fund recorded a loss of 3.2% (before fees and expenses), primarily due to modest write-downs of several investments. The Fund's internal rate of return since its inception in September 2012 decreased slightly to 7.4% from 7.6% (net of fees and expenses). At quarter-end, the cumulative amount distributed to Limited Partners increased to 106% from 105%. The Fund's net assets equaled \$787 million, and the multiple of capital was 1.4x (net of all fees, expenses, and the potential incentive allocation).
- The Fund has realized 96 investments to date, generating total proceeds of \$4.0 billion, profits of \$1.2 billion, and a gross aggregate investment-level IRR of 14.2%. The portfolio now consists of 12 investments, most of which are partially realized or in the process of being exited. The three largest assets account for 47%, or \$384 million, of the Fund's remaining net asset value.
- The Manager remains focused on realizing assets and returning capital to LPs; however, in recent months, rising interest rates have slowed activity in the capital markets and thus the disposition activity. As a result, the Manager expects that the Fund's realization timeline will be longer than it has previously communicated.

- Jason Keller has been appointed Assistant Portfolio Manager for Real Estate Opportunities, Aaron Greenberg has been appointed Assistant Portfolio Manager for Real Estate Debt, and Warren Min has been appointed Assistant Portfolio Manager for Real Estate Debt.
- Performance metrics:
  - Net IRR (since inception): 7.4%
  - Net MOIC (since inception): 1.4x
  - % Drawn: 100%
  - % Distributed: 106%
  - Committed Capital: \$2,677 Million
  - Fund NAV: \$787 Million
  - Investment Period End Date: 8/31/2016
- **Oaktree Special Situations Fund, L.P.** (2014 vintage):
  - The Special Situations Fund reported a loss of 2.2% for the fourth quarter before fees and expenses. As a result, the Fund's net internal rate of return since commencement of operations in November 2014 decreased to 2.6%. The quarterly loss was primarily attributable to (a) the write-down of Neovia Logistics and (b) the mark-to-market decline in the value of SunOpta. These losses were partially offset by the mark-to-market increases in the value of Infinera and DDH1.
  - In the fourth quarter, the Fund called 2.5% of committed capital, bringing the cumulative amount drawn at quarter-end to \$1.223 billion, or 100% of committed capital. The Fund deployed capital to fund a follow-on investment in Neovia and to partially repay the subscription line. The total amount distributed since inception was \$187 million, or 16% of drawn capital. The Fund ended the quarter with \$1.171 billion of net assets (net of potential incentive allocations), or 96% of drawn capital. Thus, the Fund's "total value" (i.e., NAV plus distributions) stood at 1.1x its drawn capital at quarter-end.
  - Because of the negative economic backdrop, the U.S. debt and equity markets that are most relevant to the strategy produced their worst returns since the Global Financial Crisis. The Russell 2000 Value Index generated a loss of 22% for the year (of the major U.S. stock indices, the Fund's portfolio companies are most similar in size to those in the Russell 2000, of

which the value index is the most applicable subset). The U.S. leveraged loan and high yield bond markets finished with returns of -1.1% and -11.2%, respectively. Finally, the HFRI Event-Driven Distressed/Restructuring and Special Situations indices posted returns of -4.3% and -5.3%, respectively.

- Performance metrics:
  - Net IRR (since inception): 2.6%
  - Net MOIC (since inception): 1.1x
  - % Drawn: 100%
  - % Distributed: 15%
  - Committed Capital: \$1,223 Million
  - Fund NAV: \$1,171 Million
  - Investment Period End Date: 11/16/2018