



Investment Thesis

Outlook

Buy-rated Oaktree is a leading credit-focused alternative asset manager, with a contrarian and value-driven investment style that has delivered attractive risk-adjusted returns over time and enabled strong fundraising. We see the following positive catalysts for OAK units over the next 12 months: 1) an acceleration in AuM growth after stagnant AuM over much of the past 3 years as the giant financial-crisis era VIIb fund nears the end of its distribution period, 2) strong organic growth across a variety products, from new and also more-traditional strategies, 3) reasonable growth in DE after modest re-basing drop in 2014 post VIIb realization cycle, helped by high accrued incentive balance, and 4) greater investor appreciation for OAK's lower risk profile emanating from its conservative investment strategy (with a heavy mix of yield stabilizing investment returns). With OAK trading at a premium valuation to peers (consistent with its more-asset-manger-like business mix), our thesis is more reliant on earnings growth than revaluation, but we also see good risk/return w/OAK outperforming in a correction scenario.

Valuation

We believe DE, from which cash distributions are paid to unit holders, is the most important earnings metric to value the Alts, rather than economic net income (ENI) that forms Consensus estimates. Our valuation is based on assigning a target PE on our 2015 estimate for distributable earnings, a year from now. We think the catalysts outlined above will slightly improve OAK' P/E from 12.3x 2014E ENI to 12-13x 2015 DE 12 months from now, narrowing its discount to the S&P 500 P/E from ~20% to ~15%. This drives a \$68 PT, which implies a total return of 22% over the next 12 months, inclusive of a 6.4% forecast distribution yield for 2014. .

Risks

Downside risks for OAK are: 1) a slowdown in US/global economy, 2) any emergence of a severe credit cycle that could temporarily depress OAK AuM, & 3) an inability to generate strong organic growth in 2014 that would jeopardize long-term growth in DE. Additional downside risks are: loss of key personnel, a deterioration in investment performance, unfavorable regulatory legislation, a change in tax laws creating higher taxation on carried interest and/or the partnership structure, increasing competition from traditional asset managers diversifying into alternatives, and inability to broaden the investor share base if as holding partnership units can be prohibitive for some investment funds.