OAKTREE

Embracing ESG: The Challenge for Multi-Asset Managers

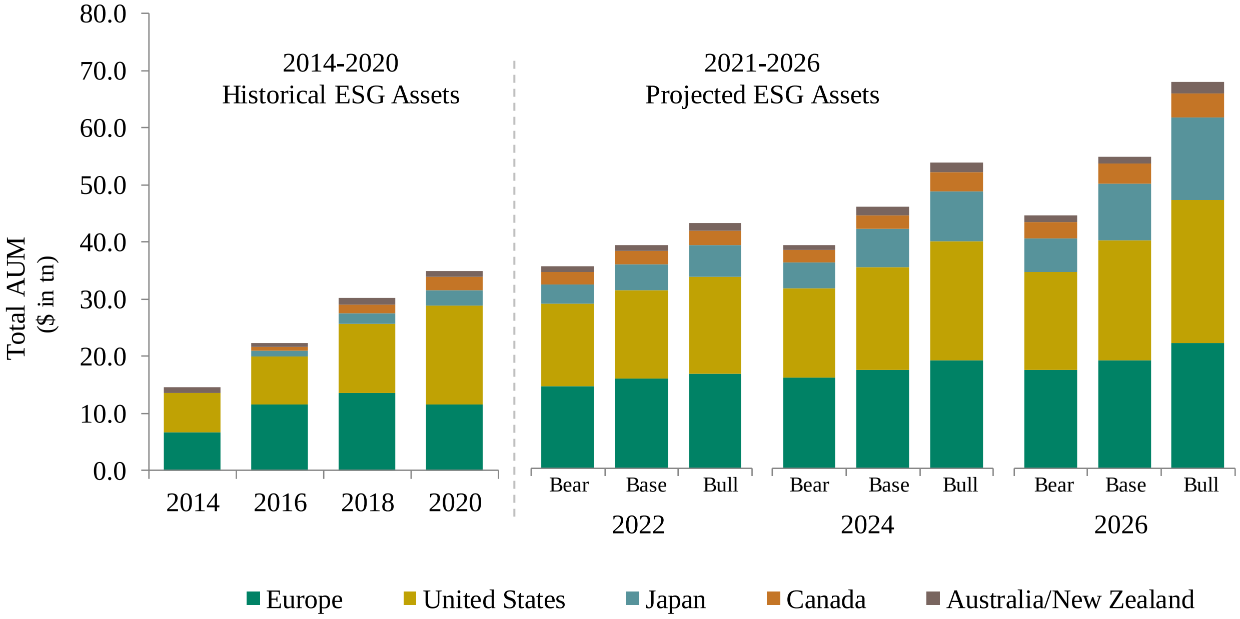
Jay Wintrob, CEO

October 27, 2021

The Dramatic Rise of "ESG"

Responsible investment has become an enormous focus for investment firms; yet ESG has proven more complex than many realized

ESG GLOBAL AUM BY COUNTRY



Source: [Bloomberg Intelligence]

The ESG Investing Spectrum

Responsible investing encompasses a wide range of practices

		Responsible Investing	Responsible Investing	Responsible Investing / Impact Investing	Impact Investing	
	Traditional	**Screening**	**ESG Integration**	**Themed**	**Impact-First**	**Philanthropy**
	Competitive Returns	Competitive Returns	Competitive Returns	Competitive Returns / Targeted Social and/or Environmental Impact	Targeted Social and/or Environmental Impact	Targeted Social and/or Environmental Impact
FOCUS	Limited or no focus on ESG factors of underlying investments.	Negative or exclusionary screening and positive or best-in-class screening based on criteria defined in a variety of ways (i.e. by product, activity, sector, international norms).	The use of qualitative and quantitative ESG information in investment processes, at both the investment- and portfolio-level.	The selection of assets that contribute to addressing sustainability challenges such as climate change or water scarcity.	Environmental or social issues which create investment opportunities with some financial trade-off.	Focus on one or a cluster of issues where social and environmental need requires 100% trade-off.
EXAMPLES		• Ethically-screened investment funds that exclude certain sectors or industries, such as coal, weapons or tobacco	• Credit funds that use ESG assessments to identify risks and opportunities throughout the investment lifecycle • Engagement / outreach with portfolio companies	• Climate resilience funds • Emerging markets healthcare funds • Microfinance structured debt funds	• Funds designed to generate measurable social and environmental impact aligned with the UN Sustainable Development Goals (SDGs)	

Source: Examples adapted by Oaktree from UN PRI

The Complexity of Responsible Investment

The reality facing multi-asset managers

- ESG has become mainstream, but there is no one best practice
- There are many standard-setters for the same topic, resulting in a fragmented market
- The industry undeniably still has a long way to fully integrate responsible investment practices, and to track and measure outcomes
- Investors and regulators rightly have concerns around greenwashing
- Most industry participants remain “unclear how to define and measure impact outcomes,” feel there is a “lack of robust data on ESG factors for private equity companies” and that there are “perceptions of potential negative impact on overall returns” (*Pitchbook, Sustainable Investment Survey, 2020*)
- Many firms will state they have a robust ESG process. However, multi-asset managers must adapt processes to work effectively in varied investment strategies and sectors

Identifying Opportunities Through ESG Analysis and Action

Embracing ESG across industries and sectors presents heightened levels of scale and complexity

	Environmental	Social	Governance
Analysis	• Climate change & carbon emissions • Air and water pollution • Biodiversity & deforestation • Energy efficiency • Waste management • Raw material sourcing	• Data protection & privacy • Equity, diversity & inclusion • Employee engagement & community relations • Human rights & labor standards • Chemical safety • Access to healthcare & finance	• Board composition • Audit committee structure • Bribery & corruption • Executive compensation • Lobbying & political contributions • Whistleblower protection
Actions	✓ Reducing CO_2e emissions and energy consumption through investment in greener production processes and energy efficiency technologies may improve business preparedness	✓ Actively tracking portfolio and supply chain affiliations can ensure the highest level of human rights standards ✓ Reducing product safety issues and recalls may promote customer loyalty, brand and reputation	✓ Strong internal controls and risk management may promote business durability ✓ Adhering to best-in-class accounting and reporting standards may promote investor and stakeholder transparency

Nuances of ESG Integration (Public vs. Private)

PUBLIC INVESTMENTS

- Public companies are more likely to have:
  - Greater ESG disclosure
  - More coverage from third-party data providers
  - Resources that can be dedicated to sustainability
- Mitigants:
  - Companies may elect to disclose only favorable outcomes
  - Data quality may be mixed
  - An individual LP may be less influential in a larger capital structure

PRIVATE INVESTMENTS

- Public disclosure and third-party ESG coverage is likely to be limited, placing primary onus on the investor
- Given limited post-investment liquidity, comprehensive initial due diligence is critical
- Lenders can influence borrowers through bespoke loan documentation and negotiated covenants
- Though public disclosure may be limited, lenders can request private ESG disclosure

Nuances of ESG Integration (Control vs. Non-Control)

CONTROL

- In control investments, investors have significant influence on company practice
- ESG can be an important part of value-add, through:
  - Active management
  - Board oversight
  - Strong understanding of the company's finances and operations

NON-CONTROL

- In non-control investments, strong diligence is critical, particularly where the investment can't be sold before maturity (e.g. private debt)
- Firms often have most leverage before the capital is invested, and may try to influence:
  - Specific use of proceeds
  - Covenants associated with the debt
  - Required disclosure practices

Frontier Issues for Multi-Asset Managers

ENGAGEMENT

Tailor our active management approach relative to our level of influence

CREATING VALUE

Invest in good companies with room to improve while avoiding bad actors with illegal or irresponsible practices

DEFINING BEST PRACTICES

Identify industry standards where they exist and create strong practices where they don’t

Integration Across the Investment Lifecycle

ESG integration varies by firm and investment type

DILIGENCE

Incorporating material ESG considerations during diligence and in the investment decision

Available information and data quality varies widely by asset class

MONITORING

Ongoing monitoring of issues and opportunities

Managers identify areas of improvement relevant to financial outcomes and track progress

ACTIVE MANAGEMENT

Engaging with companies to enhance practices and create value

Managers' ability to change sustainability outcomes will vary by level of influence

REPORTING

Reporting to clients on ESG efforts and outcomes

Progress may be qualitative and / or quantitative

Example: The Road to Climate Neutrality

- Sustainable investment has grown significantly, with total assets growing over 50 percent last year to nearly $1.7 trillion (*Morningstar, FT*)
- Climate change is one of the most highly prioritized issues for sustainable investors
- The IEA estimates that decarbonization will require over $4 trillion of investment in clean energy by 2030
- The size of the funding gap and urgency for stakeholders presents new opportunities for investors
- 73% of carbon emissions can be traced back to energy and power generation, making clean energy and global power market expertise critical to investing in the transition to net zero
- ~1,200 companies have committed to Paris-aligned emissions reduction targets but many lack access to capital, credible plans and the operational expertise to achieve them

AFFORDABLE AND CLEAN ENERGY

INDUSTRY, INNOVATION AND INFRASTRUCTURE

CLIMATE ACTION

CLEAN WATER AND SANITATION

SUSTAINABLE CITIES AND COMMUNITIES

RESPONSIBLE CONSUMPTION AND PRODUCTION

Appendix

OAKTREE

Oaktree's ESG Philosophy

Oaktree's mission is to deliver **superior investment results with risk under control** while conducting our business with the **highest integrity.**

We believe that Environmental, Social and Governance ("ESG") considerations **directly and materially impact investment outcomes.**

As long-term investors, we believe a consistent focus on ESG throughout the investment lifecycle allows us to **avoid undue risk and better identify valuable opportunities.**

Integrating ESG into our investment process helps ensure that we **are aligned with our clients, their beneficiaries and our collective long-term interests**. At the same time, ESG fits squarely with **our commitment to excellence** in bottom-up investment analysis.

ALIGNED WITH LEADING RESPONSIBLE INVESTMENT ORGANIZATIONS

PRI Principles for Responsible Investment

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

BSR

SASB SUSTAINABILITY ACCOUNTING STANDARDS BOARD

GRESB INFRASTRUCTURE

Oaktree's Approach to ESG Integration

INVESTMENT TEAMS ARE RESPONSIBLE FOR ESG INTEGRATION ACROSS THE INVESTMENT LIFECYCLE:

DILIGENCE
Incorporating material ESG considerations during diligence and when making investment decisions

MONITORING
Regularly monitoring issues and opportunities

ACTIVE MANAGEMENT
Engaging with companies to improve practices and create value

REPORTING
Reporting to clients on ESG efforts and outcomes

CONTINUOUS IMPROVEMENT IN ESG INTEGRATION IS SUPPORTED BY:

HEAD OF ESG AND ESG TEAM
Drive firm-level ESG strategy and initiatives

STRATEGY ESG LEADS
Advance integration within each investment strategy

ESG GOVERNANCE COMMITTEE
Evaluates and approves ongoing improvements to Oaktree's investment integration practices

COMPLIANCE
Provides oversight of ESG processes through regular audits

BOARD OF DIRECTORS
Oversees approach to ESG matters in corporate and asset management activities

Oaktree's ESG Journey

2014

SEPTEMBER

Oaktree codifies its approach to responsible investing in first firm-wide policy

2016

THROUGHOUT

Oaktree's Infrastructure Investing strategy completes inaugural GRESB assessment

2019

SEPTEMBER

Oaktree becomes a PRI signatory

OCTOBER

Oaktree creates ESG Governance Committee

DECEMBER

Oaktree becomes a member of BSR

2020

THROUGHOUT

Oaktree strategies develop formal ESG Integration Plans, which describe ESG processes and procedures

NOVEMBER

Oaktree becomes a supporter of TCFD

2021

FEBRUARY

Oaktree appoints first Head of ESG

APRIL

Oaktree files inaugural PRI report

Oaktree appoints first Head of D&I

JUNE

Oaktree becomes a member of SASB

We seek to further advance our sustainability efforts by identifying tools and datasets, providing training, and enhancing transparency

ESG Mission

INTEGRATION

- Further incorporate ESG considerations into every part of the investment lifecycle
- Provide tools, training and data to enhance our investment professionals' understanding of ESG factors and the mechanics of integration
- Enable quantitative and qualitative portfolio-level reporting to demonstrate accountability

COMMUNICATION

- Share Oaktree's story and ambitions through expanded public disclosure and thought leadership
- Refine and unify the language used to describe our ESG approach
- Prepare teams to showcase their ESG processes

PREPARATION

- Maintain a clear understanding of upcoming regulatory obligations and drive firm-wide preparation (TCFD, SFDR, EU and UK Taxonomy)
- Partner with LPs and consultants to identify current and upcoming needs (e.g., D&I data, carbon footprinting, climate risks, quantitative ESG metrics)
- Develop ESG-forward or impact strategies based on a strong ESG framework

OAKTREE

Embracing ESG: The Challenge for Multi-Asset Managers

Jay Wintrob, CEO

October 27, 2021

Disclosures

This presentation and the information contained herein are for educational and informational purposes only and do not constitute, and should not be construed as, an offer to sell, or a solicitation of an offer to buy, any securities or related financial instruments. Responses to any inquiry that may involve the rendering of personalized investment advice or effecting or attempting to effect transactions in securities will not be made absent compliance with applicable laws or regulations (including broker dealer, investment adviser or applicable agent or representative registration requirements), or applicable exemptions or exclusions therefrom.

The presentation is being provided on a confidential basis solely for the information of those persons to whom it is given. The materials, including the information contained herein may not be copied, reproduced, republished, posted, transmitted, distributed, disseminated or disclosed, in whole or in part, to any other person in any way without the prior written consent of Oaktree Capital Management, L.P. (together with its affiliates, "Oaktree"). By accepting this presentation, you agree that you will comply with these confidentiality restrictions and acknowledge that your compliance is a material inducement to Oaktree providing this presentation to you.

This presentation contains information and views as of the date indicated and such information and views are subject to change without notice. Oaktree has no duty or obligation to update the information contained herein. Further, Oaktree makes no representation, and it should not be assumed, that past investment performance is an indication of future results. Moreover, wherever there is the potential for profit there is also the possibility of loss.

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 such information is accurate and that the sources from which it has been obtained are reliable; however, it 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. Moreover, independent third-party sources cited in these materials are not making any representations or warranties regarding any information attributed to them and shall have no liability in connection with the use of such information in these materials.