Press Kit

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Is The Rush to Credit Investing a Fool's Errand?
Wall Street Journal, Private Equity Beat
By Shasha Dai
9 January 2013

Back in October, we published an analysis in Private Equity Analyst about mega-firms' push into investing in credit securities as a result of the perennial chase for yield. Now, according to an industry veteran, the firms' activities were at least three years past the best time for such investments.

Howard Marks, chairman of Oaktree Capital Group, wrote in a Jan. 7 memo that, "The wise man invested aggressively in late 2008 and early 2009. I believe only the fool is doing so now," citing the investment adage that, "what the wise man does in the beginning, the fool does in the end."

The comment showcases Oaktree's contrarian investment approach, and Mr. Marks' propensity to go against the herd. But equally revealing is Mr. Marks' explanation of the causes of credit cycles.

According to Mr. Marks—a man known for his thoughtful memos and who is no stranger to cycles first investing in high-yield bonds in 1978—credit cycles aren't just a function of the natural ebb and flow of capital. They are caused—and exaggerated—by the "dramatic ups and downs in investor psychology." Much of the risk in investing comes not from the companies or securities involved, but from the behavior of investors, he wrote.

"In bad times securities can often be bought at prices that understate their merits," Mr. Marks wrote. "And in good times securities can be sold at prices that overstate their potential. And yet, most people are impelled to buy euphorically when the cycle drives prices up and to sell in panic when it drives prices down."

The result, as the current environment bears out, is near-historical low levels of bond yields. Contrary to what many its peers are doing, Oaktree is largely on the sell end these days. Mr. Marks recounted how he witnesses daily his partner Sheldon Stone selling callable bonds at prices of 110 and 115 basis points. "I've never seen anything like it," he wrote about the low yields of bonds.

To be a true contrarian, however, is easier said than done, according to Mr. Marks. Herd mentality is stubbornly strong and hard to resist, he wrote. To go in the opposition direction of the crowd requires only just judgment and acumen, it also calls for guts—or in Mr. Marks' words, "you have to be willing to look wrong for a while…If you can't stand living with the embarrassment of being unconventional and wrong, contrarianism may not be for you."

That is probably why Mr. Marks isn't afraid of making his thoughts public—that fools can't really emulate wise men.

Howard Marks established Oaktree as a leader in distressed debt
Howard Marks helped found Oaktree Capital Management and has worked to make it one of the largest distressed-debt firms around
Pensions & Investments
By Randy Diamond
29 October 2012

HOWARD MARKS

- Current position: Co-founder, chairman and principal of Oaktree Capital Management LP, Los Angeles
- Assets under management: $78.7 billion as of June 30
- Number of investment staff: about 200
- Age: 66
- Education: bachelor of science in economics (finance concentration), Wharton School; MBA (accounting and marketing), University of Chicago
- Personal: married, two adult children
- Hobbies and interests: tennis and architecture

Howard Marks has earned a reputation among peers and clients as am extremely savvy investor and for good reason: His firm, Oaktree Capital Management LP, has been in business for almost two decades now and has developed a record of strong investment performance.

It all started in 1995 when Mr. Marks and five partners left investment firm TCW Group Inc. in a dispute to found Oaktree, a firm that forged a reputation as specialists in the distressed-debt and high-yield bond markets. Los-Angeles-based Oaktree today has more than 650 employees and is the one of the largest distressed-debt investors. It raised almost $11 billion back in 2008 for the largest distressed-debt fund in the world, according to data provider Preqin. Oaktree's 17 funds in that category have averaged annual gains of 17.5% for the 23-year period ended June 30, net of fees.

Mr. Marks is also known for his investment memos, many of which were compiled in a May 2011 book: "The Most Important Thing: Uncommon Sense for the Thoughtful Investor."

Oaktree went public on April 12 of this year and is now listed on the New York Stock Exchange.

What is your secret sauce?
No. 1, it's possible, especially in inefficient markets, to gain a knowledge advantage. By definition, an inefficient market is one where hard work and skill can pay off. We can also control our psyche and emotions so that we don't make the human mistakes that are so common. Of course the other thing is we have a philosophy of controlling risk. So that doesn't necessarily make us the winner rather than the loser in the transaction, but it increases the probability that we engage in transactions of the sort that we and our clients want.

Does that mean you're not always swinging for the fences?
We're rarely, if ever, swinging for the fences. We think a high batting average rather than home runs is more important, and the clients who come to us want that.

Oaktree Capital's largest strategy has been distressed debt. How do you succeed in that asset class?
Our mantra is "good company, bad balance sheet," which is different from a bad company; those can be challenging to turn around. But if you have a good company with the wrong balance sheet, that's easier to fix. How do good companies become financially distressed? The answer is they take on more debt than it turns out they can service in tougher times.

After 17 years in business as a private company, Oaktree Capital went public. Why?
It was a desire to create a route to generational transition of the ownership. The company was founded in '95 by five people. We have steadily expanded the ownership, and it's now about 160-some odd people, and we did that basically by giving away the equity. The five of us, we gave away a lot, but we don't want to give it all away. We would like to realize a fairer value for our equity, which will permit us to keep transitioning it to the second and third and subsequent generations. Achieving some value for some of what we're giving up is an important element in that.

You're 66. Is retirement in the near future, or do you plan to continue at Oaktree?
There's nothing else I'd rather do in its place. It's intellectually rewarding and it's fun. I like the people here, and investing is a puzzle. I think that solving (that puzzle) is a great stimulating challenge, and working with my long-term partners to do so is very exciting.

What challenges do you face now that you've become a public company that weren't a consideration before?
It's a funny thing to get a report card every day through the stock price. But if you stop to realize that the person who's grading you on the report card has a very limited attention span and doesn't know that much about what you're doing from day to day, then I think you tend to take it not so seriously. And you say, as we have, that if we do a good job in the long run, it'll all work out. The market tends to think of you as a stock; we think of ourselves as a company. We think our job is to run the company well and that if we do the same kind of job in the future as we did in the past, then it'll be good for the company and the shareholders.

Is there a danger that by going public there is more pressure to focus more on earnings and less on client needs?
Well, that's always the clients' fear, but I did everything I could to assure them we're not going to do that. To do that is to practice short-term maximization over the long-term, and we are long-term oriented, not short. I'm at a point in life at which it's more important to me to preserve our reputation and build this company into a great company than it is to make a little more money in the short run. The fear is that we're going to make short-term decisions that are adverse to our clients' interest, and I consider that impossible. I can't imagine what would possibly induce me to do that.

Were you disappointed by the price of the IPO?
We came in a tough market. If we had come a week before, the market was good. The week we came, the market turned bad. I think the Dow was down 100 on the ninth of April and 200 on the 10th of April, and we priced on the 11th of April. You certainly have the feeling that you're swimming upstream, and the price you can get on the 11th is lower than the price you could've gotten on the sixth. And that is somewhat humbling, but you quickly figure out it doesn't matter in the long run. I'm not selling stock today or tomorrow, and one of these days I'll sell some more stock. But hopefully the price of the stock at that time will depend not on how the market was in the week of April 9 of 2012, but on whether we did a good job for our clients over the intervening years.

Looking at world affairs, do you see the European economic crisis resolving anytime soon?
The thing that I think is most important for me to say on the subject is that I don't know. ... nobody knows what needs to be done; what can be done, which is a subset; what will be done, which is a subset of that; and what the ramifications will be. So I think we really can't talk about what's going to happen. Nobody knows. And in the investment world or the bigger world, when you don't know, the most important thing is to say I don't know. You know what Mark Twain said? It's not what you don't know that'll get you into trouble; it's what you know for certain that just ain't true.

You left TCW to form Oaktree in a well-publicized dispute. Fourteen years later, TCW fired Jeffrey Gundlach. You helped fund his new firm and have more than 20% equity interest.
I don't want to kick that over anymore, but the important thing is that (Mr. Gundlach and his team) had not prepared for their departure. Jeffrey didn't quit, he was fired. They didn't have any underpinnings infrastructure-wise and they wanted to get started and build a business. We knew how to do that since we had done that, so we gave them access to our capabilities. ... We thought we could help to put together their infrastructure and vouch for their investment ability.

Oaktree and Other Alternative-investment Managers Fill Void in Special Situations
Institutional Investor
By Imogen Rose-Smith
16 October 2012

To lower their risk and comply with new regulations, global investment banks are moving out of so-called special situations — investing in distressed and undervalued corporate and sovereign debt. One of several big alternative-investment firms taking their place is Oaktree Capital Management, which plans to focus on opportunities in emerging markets such as Asia and Latin America.

Oaktree Capital Management knows an opportunity when it sees one. In July the storied $78.7 billion investment manager and distressed-debt specialist hired Julio Herrera to head a new business line that will focus on distressed and undervalued corporate and sovereign debt in emerging markets.

Los Angeles–based Oaktree isn't the only asset manager to embrace so-called special-situations investing — beaten-down and often complex opportunities in everything from Argentinean sovereign debt to Spanish real estate. Other large alternative-investment shops, most notably New York–based Blackstone Group and KKR & Co., are building capacity in this area too. Meanwhile, firms such as New York's Fortress Investment Group, which has worked in special situations for more than a decade, have been raising assets and launching new funds.

Investment managers see great promise in special situations for two main reasons. The first is the global economic meltdown and ongoing credit dislocation. The second is the predicament of global investment banks that once dominated special situations by sinking their proprietary capital into such deals.

Goldman Sachs Group's special-situations unit, co-founded by Peter Briger Jr. and Edward Mule in the late 1990s, is the best-known example. Other players included Citigroup and Lehman Brothers Holdings. But diminished risk appetite and the wave of regulatory reform since 2008 are pushing banks out of special situations, regarded as part of the shadow banking industry. The result is a lending and investing void, at the precise moment when the sovereign and corporate distressed-credit markets are on fire.

Identifying a market opportunity is one thing; profiting from it is another. Given the idiosyncratic nature of special-situations investing and the potential for deals to go sideways, success doesn't come easily. Pricing is a challenge. The key to investing in distressed assets is buying them at the right price relative to their risk profile. But with so much capital hunting for opportunities, prices will probably climb.

Because it's tough to pull off, special-situations investing calls for the right blend of experience. Oaktree's Herrera fits the bill. After earning a degree in economics, political science and Latin American studies from the University of California, Los Angeles, he began his career as a credit analyst and portfolio manager for RRK Capital Management. He went on to become a proprietary trader at ING Capital Holdings, where he specialized in Latin American distressed credit. He then headed emerging-markets corporate fixed-income research for Lehman before joining Fintech Advisory, a high-net-worth family office with a multibillion-dollar emerging-markets portfolio, in 1997. Based in New York, Herrera worked on some of the most compelling credit restructurings and other deals that came out of the credit crisis of the late 1990s and had a particular impact on Latin America, Russia and Asia.

Today, Herrera is largely concentrating on emerging markets such as Asia and Latin America. "The market for corporate hard currency debt in emerging markets is fast approaching the size of the U.S. and

European leveraged-debt markets," he says. "This growth has been driven largely by the easy availability of credit, relaxed underwriting standards and low levels of sovereign issuance, particularly in the wake of the 2008 financial crisis." Corporate bonds now make up more than 70 percent of emerging-markets issuance, with total debt approaching $1 trillion.

In Europe, which investors hope will yield plenty of distressed-credit opportunities, banks hold many of the most coveted assets on their balance sheets. Although they need to reduce risk by unloading these assets, they have been unwilling to sell at low valuations because it would create more balance-sheet problems.

Andrew Tsai, CIO of New York–based multifamily office Chalkstream Capital Group, is skeptical about Europe. "We don't think the opportunity is there yet," says Tsai, who co-founded Chalkstream with former Morgan Stanley proprietary trading executive Peter Muller. There is also a "huge amount of capital that has been raised that is waiting on the sidelines," he adds. At Institutional Investor and CNBC's Delivering Alpha conference in July, Briger, now co-head of Fortress's credit and special-opportunity business, expressed frustration about the prices at which European banks are willing to sell assets. (Mule, his former colleague, went on to found hedge fund firm Silver Point Capital, whose strategies include distressed investing.)

At Oaktree, Herrera says, emerging markets remain more appealing than Europe. But they aren't for everyone, he notes: "Few dedicated emerging-markets investors have not only the scale but the long-term capital to be able to invest throughout a business cycle, especially during credit busts and market dislocation." Along with a handful of other brand-name alternative-investment managers, Oaktree has the confidence to seal the deal.

Owners' mission: Monetize an empire Tribune Co.'s future unclear as creditor group prepares to take control of media firm
Chicago Tribune
By Robert Channick and Michael Oneal
7 October 2012

Throughout its 165-year history, Tribune Co. has been shaped by the outsized personalities of its colorful owners -- for better or worse.

Joseph Medill guided the Chicago Tribune to prominence and became mayor of Chicago in 1871. His grandson, Col. Robert R. McCormick, put radio station WGN-AM on the air in 1924, building a multimedia empire.

Even Sam Zell, the billionaire real estate investor, shook the cultural foundations of Tribune Tower before the company plunged into bankruptcy under the weight of his heavily leveraged $8.2 billion buyout.

Now meet the new media barons at Tribune Co.: two investment firms and a bank.

After nearly four years in legal limbo, senior creditors Oaktree Capital Management, Angelo, Gordon & Co. and JPMorgan Chase will have controlling interest in the newly reorganized Tribune Co. when it emerges from Chapter 11 bankruptcy, perhaps as soon as this month. Oaktree and Angelo Gordon entered the picture because they bought up the company's debt; JPMorgan was lead lender in the buyout.

The final hurdle is Federal Communications Commission approval to transfer the Chicago-based company's broadcast licenses to the new ownership group. The three will then install a new board, name their CEO -- a selection process that insiders say is well under way -- and issue stock in the reorganized company. What happens next to Tribune Co.'s eight daily newspapers, 23 television stations and assorted other media holdings worth an estimated $4.5 billion will be decided by the new bosses.

"It has some very good assets, and we think that through the purchase of the distressed debt, we were able to buy those assets at attractive prices," said Howard Marks, 66, chairman and co-founder of Los Angeles-based Oaktree, speaking by phone from the firm's London office, where he spends a third of the year. "And now the next stage of the investment will be about what those assets can be made to be worth."

Oaktree will be the largest shareholder, with about 22 percent of the equity, and will appoint two of seven board members. Both Angelo Gordon and JPMorgan have roughly a 9 percent stake and will control one board seat each. All three will appoint two more board members, and a final seat will be reserved for the chief executive.

A fixed number of shares will be issued in the new Tribune Co., and the stock will be tradable through a quasi-public market. Tribune Co. and its assets will, ultimately if not immediately, be for sale.

"Creditors that become shareholders through bankruptcy restructurings do not suddenly become long-term stewards of companies," said Marshall Sonenshine, CEO of New York banking firm Sonenshine Partners and a professor at Columbia University Business School. "They want to realize value by selling businesses or stock when they can."

While seismic changes may be in the offing for Tribune Co., it is business as usual for its new owners.

Founded by Marks and Bruce Karsh, Oaktree has profited greatly from other people's mistakes. The alternative investments firm, which went public in April, has $78.7 billion in assets under management and focuses much of its attention on steering companies through financial restructuring.

Such distressed-debt investing has returned nearly 18 percent per year since Karsh initiated the strategy in 1988 while the pair worked together at Los Angeles-based investment firm TCW. Distressed debt represents nearly a third of Oaktree's holdings and is at the core of its investment philosophy.

"Our mantra is good company, bad balance sheet," said Marks, a native of Queens, N.Y., who earned an MBA from the University of Chicago. "We want good companies that have become overleveraged."

Oaktree has an array of formerly distressed media properties in its portfolio -- everything from a 17 percent stake in cable giant Charter Communications to controlling interest in Townsquare Media, a small-market radio group it built up through a bankrupt predecessor. More recently, it has taken a large position in Australia's Nine Entertainment.

All of Oaktree's holdings have a 10-year investment window, though the average is three or four years. That time horizon usually includes an operating phase, according to Marks.

"We're not company executives, but we help to direct companies; that's one of the ways we add value," Marks said.

While it is unlikely that any Tribune Co. divestitures will take place out the gate, a year down the road would be less surprising, according to Marks. But he doesn't preclude that Tribune may remain intact for some time.

"It's safe to say that nobody knows today what actions are going to be taken," Marks said. "Nobody knows for sure who the CEO is going to be and what he or she is going to recommend, and what the board is going to approve and what value will arise. The most important thing is that these decisions are not predetermined."

Another person familiar with Oaktree's thinking, who declined to be identified, said the investment firm likely won't feel rushed to sell Tribune Co. assets because the company will come out of bankruptcy with plenty of cash flow, allowing it to form a strategy and wait for the best opportunities.

During the bankruptcy, the fortunes of Tribune Co.'s print and broadcasting properties have diverged, following industry trends. Tribune Co.'s 23 TV stations, including WGN-TV in Chicago, represent the majority of the firm's cash flow and net worth, while the Chicago Tribune, Los Angeles Times and six other daily newspapers have withered to $623 million in value, according to financial adviser Lazard Ltd.

With Lazard projecting Tribune Broadcasting to contribute three-fourths of the company's cash flow by 2014, some analysts expect the new owners to split the segments through spinoff or sale.

"They may stay intact for some period of time before anything happens, but it won't be very long," Sonenshine said. "There's simply no industrial logic to having these businesses under one roof. Which one gets realized first and how, is really now the question."

Given its recent actions, getting out of the newspaper business would seem to be a priority for Angelo Gordon.

New York-based Angelo Gordon also specializes in alternative and distressed-debt investing, with about $24 billion in assets under management. Prior to starting the firm, John Angelo and Michael Gordon were executives with L.F. Rothschild, a venerable Wall Street investment bank.

It is not unusual for Angelo Gordon to find itself in the same distressed debt deals as Oaktree. But the firm's aggressive acquisition of bankrupt newspapers during the recession was a separate path and, ostensibly, a wrong turn. The decline in newspaper revenues derailed the strategy, and its architect, managing director Brad Pattelli, left in 2010. Angelo has since apparently unwound all newspaper investments except Tribune Co.

The Minneapolis Star Tribune went into bankruptcy in January 2009 and emerged nine months later with Angelo Gordon among the senior creditors that took ownership of the newspaper. In 2011, Angelo sold its shares.

In 2010, Angelo Gordon and Alden Global Capital paid $139 million for the bankrupt Philadelphia Media Network, which is the parent company of the Philadelphia Inquirer, Philadelphia Daily News and Philly.com. Two years later they cut their losses and sold the media properties to a group of local investors for $55 million.

Angelo Gordon and other debtholders, including JPMorgan, took ownership of California-based Freedom Communications in 2010, after a brief stay in Chapter 11. Freedom sold its eight TV stations to Sinclair in 2011 for $385 million. In July, Freedom completed the sale of its remaining print assets, including the flagship Orange County Register, to Massachusetts entrepreneur Aaron Kushner for an undisclosed amount.

"The equity belief you're getting something cheap, you can turn it around and get it back on the market in three to five years and make a fair amount of money -- they figured out that wasn't true on newspapers," said media consultant Ken Doctor.

A spokesman for Angelo declined to comment, and efforts to reach Pattelli were unsuccessful. A spokesman for Tribune Co. also declined to comment.

While Oaktree and Angelo Gordon opportunistically bought into the bankrupt Tribune Co., JPMorgan has had skin in the game since the 2007 leveraged buyout. The bank helped finance what Zell came to call "the deal from hell," which buried the company under $13 billion in debt as the Great Recession unfolded.

Of the three new owners, JPMorgan might be the most motivated seller, according to Sonenshine.

"I think the parties that probably have the longest tolerance to stay in there are probably Oaktree and Angelo Gordon because they're really conversion players," Sonenshine said. "JPMorgan was a senior lender; it didn't really intend to be in there. So if they can sell out some of their position earlier, they might do that."

A JPMorgan spokeswoman declined to comment for this story.

Whatever happens, it seems clear that the tenure of the new owners won't rival the century-long reign of the Medill family or perhaps even the bankruptcy.

But Marks pledges that Oaktree will stay the course in Tribune Co. -- for as long as it takes to maximize its return on investment.

"If it took us four years to complete the reorganization from the start, and if it takes four more years to accomplish what we have to with the company, then we're still within that 10-year window," he said.

Oaktree moves to wrest control of sick companies
Financial News
By Dan Dunkley
7 October 2012

Howard Marks likes it when economies turn sour and companies run into trouble. It affords more opportunities for Oaktree Capital Management, the listed US distressed debt investor of which he is chairman.

Marks is not unhappy about Europe's problems. In a memo to investors last month, he described the continent's crisis as representing "a problem of enormous proportions and limitless uncertainty".

He said he had told a prominent US politician once that he was "hoping for lacklustre" macroeconomic growth, as it would lead to more opportunities for his firm. His views reflect his firm's ethos: striking while companies are down.

Deep roots

Oaktree was formed in 1995 by a group of principals who first got together in the mid-1980s to manage high-yield bonds, but have since diversified into a wide range of financial services, becoming one of the world's major debt investors.

Los Angeles-based Oaktree has offices in 13 cities, managed $78.7bn in assets at June 30, 2012 and employs about 675 people worldwide. Its European offices are in Germany, France, Italy, Spain and the UK.

According to the firm's website, at June 30, distressed debt accounted for 34% of its investment; corporate debt, 27%; and control investing – a longer form of debt investment – 21%.

The group went public on the New York Stock Exchange five months ago, becoming the latest in a line of major alternative investment managers to list shares.

Oaktree shares started life on April 12 at $41 a share, after pricing at $43 a share, from a marketing range of $43 to $46. The listing, which raised $380m for Oaktree, was led by banks Goldman Sachs and Morgan Stanley. The firm's shares were trading at around $40.32 on October 4, 2012.

Oaktree first raised a dedicated European fund in 2006, according to data provider Preqin, a $550m vehicle, and is currently deploying a €3bn fund raised last November. Oaktree had spent one fifth of the fund by April this year, Marks said, as the firm published its first-quarter results.

According to the firm's second-quarter figures, management fee-generating assets under management were $66.3bn, compared with $63.9bn for the same quarter last year.

Aggressive strategy

Oaktree has been at the forefront of aggressive debt investing in Europe this year, attempting to seize high-profile portfolio companies of European private equity firms, as debt-laden assets, acquired at the height of the boom, buckle under the weight of macroeconomic turmoil.

It has targeted highly indebted portfolio companies of private equity firms BC Partners, CVC Capital Partners and Blackstone Group.

In June, Oaktree teamed up with US advisory group Marathon Capital, and gained control of the global gym chain Fitness First through a debt-for-equity swap, which wrested control from previous majority shareholders BC Partners, which bought the chain in 2005 for £835m.

Debts of $862m were written off in return for Oaktree and Marathon taking 75% of equity in the company. Fitness First chief executive Pete Manuel said the new owners had committed to injecting £100m into its growth.

In August, it emerged that Oaktree had been buying senior debt of French concrete product makers Consolis, a portfolio company of buyout firm LBO France.

That month, a French court appointed a mediator to facilitate talks between the buyout firm and its creditors. Talks are continuing. LBO France was unavailable for comment.

Oaktree is also currently in discussion with CVC Capital Partners over the restructuring of Nine Entertainment, the embattled Australian media company. CVC was reported to have rejected a debt-for-equity swap proposal for the company by a group of funds led by Oaktree and major debt investor Apollo Global Management, the New York Times has reported.

German plastics manufacturer Klöckner Pentaplast, formerly owned by Blackstone Group, was the one that got away.

It emerged in March this year that Oaktree had begun building up its senior debt holding in the company.

The firm made a proposal to take control alongside other senior lenders. But the proposal was usurped by junior lenders led by distressed investor Strategic Value Partners, which now has control of the company.

Before the transaction, Klöckner's debt represented 7.3 times its earnings before interest, taxes, depreciation and amortisation, according to reports, compared with the current industry standard of around five times earnings. Blackstone declined to comment.

One investor at a large European fund of funds said Oaktree's investments in the current market had been "very impressive". He added that the firm was "very smart, aggressive and good at its strategy". Market executives believe that distressed investors will begin to seize more assets that were overleveraged during the boom years.

But a lawyer who has worked on recent debt-for-equity deals – including one led by Oaktree – said senior debt was currently trading at high levels, which could prevent distress funds like Oaktree from building up more debt positions in portfolio companies.

Lenient banks

He said, although expensive debt made high returns more difficult, there would have been many more targets for firms such as Oaktree if the banks had not granted many ailing companies amend-and-extend debt packages and been willing to writedown underperforming loans.

Edmund Reed, partner at UK law firm Travers Smith, expects more writedown once this has been done: "It is definitely a trend that will continue. It is slightly surprising that more [debt-for-equity deals] haven't happened. I think that there is a reluctance among lenders with issues on their own balance sheet to deal with some of their underperforming loans. But as the economy eventually revives, banks' balance sheets will strengthen and they will want to move on and deploy their time and capital elsewhere."

Oaktree declined to comment for this article.

The Most Important Thing: An Interview With Howard Marks
ValueWalk
By Joshua C. Rarrick
19 September 2012

Oliver Mihaljevic, who is running the upcoming European Investing Congress, was recently able to secure an interview with Howard Marks, the CEO of Oaktree Capital Group LLC (Howard Marks will be speaking at the event). This interview covers a wide range of topics and gives rare insight into Marks' extremely talented investing methods.

Marks discussed his book, "The Most Important Thing", which has received accolades from the likes of Warren Buffett. Joel Greenblatt also termed this book as a future investment classic. When asked about his motivation for writing the book, Marks responded that he really couldn't remember. He spoke of how he had written memos for over ten years to his clients, and never received any response to them. However, he was determined to document his thoughts, and he continued to write them down.

He explains that on New Years Day of 2000, he wrote a memo, which he titled Bubble.com. This one proved to be very special, as it talked about the tech sector being a bubble, and it was soon proved to be correct. After ten years of hard work, Howard marks was as he termed it, "an overnight success." He explains that he had planned on documenting these memos in a book, which he had decided to release when he retired. However, those plans were interrupted when he received a letter from Warren Buffett. Buffett said in his letter, "If you will write a book, I will give you a blurb for the jacket." Marks admits that the request from Buffett was the catalyst that made him begin putting his thoughts into book form.

Marks explains in the book that he doesn't believe that many investors understand how to choose their investments wisely. He explains that too many people try to simplify investing, while he seeks to do the opposite. He wants to show just how complicated a process is involved in selecting a stock, and deciding how much of that stock to buy.

When asked about how general consensus influenced market decisions, Marks replied that, "First of all, the consensus has an opinion, and you have to understand that the consensus is not a moron. So, much of the time, the consensus is about right." He further explains that in order to do better than the consensus, you must determine when the consensus is wrong. You have to think differently than others around you.

When asked how he decided which stocks and bonds to invest in, and what his model was for choosing these investments, Howard Marks' reply is definitely not the norm on Wall Street. He said that he stresses the dangers of being overly confident. He also points out that his book contains the models upon which his company is based, and that "it is not an algorithm. It is a mindset." In other words, while they do use algorithms to help select their investments, once they've made the investment, there's no turning back.

When asked about risk management, Marks' explained that just because a stock is a "favorite", and should be a good safe investment, that doesn't mean that it's the best one to make, in terms of profit. He explains that you have to be able to asses the risk very carefully. After deciding whether the risk is worth the return, then you make your investment.

Howard Marks took Oaktree Capital Group LLC public in June of 2011, and the company has flourished ever since then. He is a philanthropist of sorts, like many of his peers. His donations include the Marks Writing Center, which makes it possible for University of Pennsylvania students to receive one on one attention, which Howard credits for his abilities to write. You can find more of his written work in "The gathering Storm", which is a collection of essays by leading hedge fund experts. The proceeds from sales of "The Gathering Storm" are donated to various charities, including the Marks Writing Center.

Q & A With Oaktree Capital's Howard Marks
Wall Street Journal, Private Equity Beat
By Shasha Dai
14 August 2012

Howard Marks, the chairman of Oaktree Capital Group boasts a lengthy track record of investing in credit at a time when some mega-firms are still expanding their presence in the sector. We caught up with Mr. Marks recently to get his take on the competitive landscape and what is on Oaktree's horizon. His responses were edited for clarity.

Private Equity Beat: Some of your peers have established managed accounts with limited partners that have varying degrees of discretion across credit strategies. Oaktree has yet to set up a managed account. Is that something you are looking at?

Mr. Marks: It is a mini-groundswell. So far, there have been a handful of managed accounts, but it's not really a movement. One of the value propositions for limited partners is that they can enlist managers in decision making so they can get the benefit from the best thinking of the manager. As for the manager, the accounts bring a larger amount of money for a meaningful period of time. That money should be relatively reliable. For us, sizable checks at the expense of fee concessions are not attractive economically, because we were able to raise all the money we were looking for. [But] we have some [managed accounts] under discussion. There is some interest in it…and we are certainly willing to consider it.

PE Beat: High net worth individuals constitute an investor group that more mega-firms are catering to these days. Carlyle Group, for instance, is courting wealthy individuals through feeder funds. KKR & Co. has launched two mutual funds for retail investors. What is your take on having high net worth individuals investing in Oaktree funds?

Mr. Marks: When you have limited capacity, not all businesses are attractive. The questions with retail investors are: One, we have to pay somebody to raise money for us, so the economics aren't that attractive. [The second question is:] Can retail investors be sophisticated enough to be dependable money in crises? The last thing we want is money that rushes in when the market is hot and prices are high, or money that rushes out when the market is cold and prices are low. You don't want hot money. The credit markets are not inherently liquid. And no [investment] vehicle should provide more liquidity than the underlying assets [do].

We have, however, tapped feeder funds in the past. In 2007 to 2008, UBS raised several feeder funds for Oaktree that were marketed to UBS clients. Those feeder funds performed well for those vintages.

PE Beat: Most of your peers count credit as their fastest-growing business segment, and the space is getting crowded. How concerned are you about competition?

Mr. Marks: This is what the market does. Competition is a way of life. If we are good, we should remain superior. I am not naïve enough to believe that what we are good at will stay with us exclusively.

Marks puts Oaktree Capital on path to IPO
Bloomberg Markets
By Gillian Wee
26 June 2011

Howard Marks was failing miserably. It was 1977, and the research group he oversaw at Citibank had recommended Nifty 50 stocks that lost 90 percent of their value over the previous decade.

Peter Vermilye, Citibank's chief investment officer, gave Marks an option: He could quit research and start a fund focusing on convertible bonds, a niche where neither the New York bank nor Marks had any experience. He jumped at the chance.

"It changed my life," says Marks, wearing light-brown tortoise-shell glasses and spiky, sandy-colored hair. "If he hadn't pushed me out of the research job, where would I be today?"

Marks, 65, is chairman of Oaktree Capital Management, the biggest distressed-debt investor in the world. Oaktree oversees more than $80 billion for pension funds from Massachusetts to Florida and the world's biggest sovereign-wealth funds, such as China Investment Corp. Oaktree's 17 distressed-debt funds have averaged annual gains of 19 percent after fees for the past 22 years — about 7 percentage points better than its peers tracked by Boston-based consulting firm Cambridge Associates.

Now Oaktree is planning to list shares on the New York Stock Exchange. The company registered for an IPO of $100 million, without setting a price range or the number of shares it aims to sell. In May 2007, Oaktree raised about $1 billion, selling a 15 percent stake on a private Goldman Sachs exchange open to sophisticated investors. The transaction valued the whole company at $6.3 billion.

From his downtown Los Angeles office, which has a view of the iconic Hollywood sign, Marks says his strategy is to find bargains such as troubled media company Tribune Co., movie theater chain Regal Entertainment and CIT Group, the small-business lender that emerged from bankruptcy in 2009.

"We don't expect to be able to hit the bottom," Marks says. "All we care about is that we're buying cheap. If it gets cheaper, we buy more. Eventually, it'll work out — so long as we are right."

Marks has built his career on choosing bargains correctly, investors say.

"The secret is having the capital and courage when things look pretty gloomy to say, 'This will work,'" says George Siguler, whose New York-based Siguler Guff manages about $10 billion in private equity and distressed debt, including investments in Oaktree. "They raise much bigger funds when they see the timing or opportunity is great and much smaller funds at other times. It's a discipline not everybody has."

Once Marks takes Oaktree public, it may be harder for him to maintain that self-control, Oaktree investor James Hoover says. "There are inherent conflicts of interest when an investment firm goes public," says Hoover, founder of Dauphin Capital Partners and chief investment officer of Elizabethtown College in Pennsylvania.

"To appease shareholders of the company, you're going to expand the product offerings. You might be less discriminating about the size of the funds. The bigger the size, the more fees are paid."

The IPO fizzle

Private-equity stocks have a mixed record on the NYSE, too. Blackstone Group, the world's largest private-equity firm, went public in 2007, shortly before the global financial crisis, raising $4.1 billion. Its shares remained 46 percent below its IPO price, even after gaining 18 percent year-to-date. Apollo Global Management fell 16 percent from its March 29 offering, which raised $565 million.

The exception is KKR, which went public in July 2010 and rose 48 percent in New York trading. Marks declined to comment on news reports in May that valued Oaktree, of which he owns about one-sixth, at $8 billion to $9 billion.

The IPO comes as opportunities for making money in distressed investing are scarcer than they were a few years ago. In January and April, Marks returned a total of $4.4 billion to investors in his $11 billion OCM Opportunities Fund VIIB — the biggest distressed-debt fund in history.

Oaktree had raised money for the fund in May 2008 and invested about $6 billion of it in the most senior debt of failing companies during the 15 weeks following Lehman Brothers Holdings's bankruptcy in September. Oaktree paid roughly 50 cents on the dollar for the debt and generated a gross annual return of 31 percent for the fund since its inception. Marks and Oaktree partner Bruce Karsh declined to name the companies whose debt the fund bought.

In April, Marks finished raising about $2.6 billion for his newest distressed fund, which is 76 percent smaller than Opportunities Fund VIIB.

Not all of Oaktree's forays have been successful. Three of its funds that used leverage saw losses amplified following the market's decline in 2008, forcing investors to allocate more money as their value plunged. Oaktree is liquidating those funds — a high-yield-plus fund, one in European credit opportunities and one focused on Japan — even after they rebounded last year, returning more than 10 percent after fees, according to Oaktree's year-end letter to investors.

$8 billion to invest

Oaktree has more than $8 billion in dry powder to invest, about 15 percent of the $55 billion in total capital available for distressed managers around the world, says Tim Friedman, spokesman for Preqin, a research group. Aside from having 40 percent of its investments in distressed assets, it has 25 percent in corporate debt, while 18 percent comes from control investing, under which Oaktree takes ownership of firms by buying their debt or equity. In all, Oaktree runs 16 strategies.

"His investment philosophy is simple and unwavering: 'Buy low and sell high,' " says bond manager Jeffrey Gundlach, who knows Marks from TCW Group, where Gundlach was investment chief. "I've heard him say time and time again: 'There's no such thing as a bad asset. It's a question of pricing.' " When Gundlach started his own firm, DoubleLine Capital, Oaktree took a 22 percent stake.

Marks formed his investing philosophy in the 1980s, after Vermilye approved his transfer to Los Angeles, where he ran Citibank's convertible- and high-yield-bond funds. At the time, Michael Milken was pioneering the junk-bond market that fueled a boom in dealmaking based on debt. Marks moved to TCW in 1985, running two funds, one investing in high-yield bonds and the other in convertible securities.

Raised in Rego Park, a middle-class neighborhood of attached red-brick homes in Queens, Marks was the son of an accountant and a homemaker. He attended the Wharton School of the University of Pennsylvania, where he abandoned plans to become an accountant after taking finance classes.

He minored in Japanese studies, where he learned about mujo, which he defines as the acceptance of the inevitability of change, helping to form his investment philosophy.

"It was the first time I was really stimulated by what I was doing academically," says Marks, who later obtained an MBA in accounting and marketing from the University of Chicago. "The teacher required writing. And that's when I started to care about writing." Marks endowed a writing center at Penn in 2007.

At TCW, Marks began sending out rambling memos to customers about his investing philosophy, interspersed with anecdotes about his family. In 1995, Marks and six partners, including Karsh, started Oaktree.

His first $2.5 billion came from TCW, which hired Oaktree to continue managing the funds Marks had run there. Now, 39 percent of the money Oaktree manages comes from public funds, while 29 percent is from corporations. The rest of the clients include endowments, foundations, insurance companies, wealthy individuals and mutual funds.

While Marks is the public face of Oaktree, Karsh is the "quiet secret" behind the scenes, says Ken Moelis, CEO of investment bank Moelis & Co., which worked on some Oaktree deals.

"If you say the name Bruce, people know you're talking about Bruce Springsteen," Moelis says. "There's one Bruce in music and one Bruce in distressed. He's just a solid guy who does his homework and thinks through timing."

Karsh was 31 in 1987, when he pitched the idea of a distressed fund to Marks. Karsh, a former assistant to billionaire philanthropist Eli Broad, whose insurance company SunAmerica had been a TCW client, joined TCW that year and helped to raise $100 million for its first distressed fund.

William T. Spitz, former chief investment officer of Vanderbilt University, invested in Marks's second distressed-debt fund, started in 1990. Spitz saw an opportunity to buy firms' debt that had lost value as the junk-bond market collapsed following a securities fraud scandal that sent Milken to jail for 22 months and the 1989 breakdown of a leveraged- buyout deal for United Airlines. Annual gains on the fund before fees were more than 40 percent.

"He was one of the first people smart enough to look at less-efficient asset categories," says Spitz, who worked for Marks at Citibank before investing with him. "There weren't many managers who did it, and there weren't many institutions investing."

The popcorn trade

Oaktree began investing in movie theater chains in 1999. Oaktree teamed with Denver billionaire Philip Anschutz to take control of Regal Entertainment, buying $800 million of senior bank debt and then forcing the company into a prepackaged bankruptcy. Within two years, the partners earned back their original investment, along with a $715 million special dividend and a 78 percent stake in a company valued at $2.8 billion, according to the Journal of Private Equity, a trade publication. Oaktree funds also bought stakes in Landmark Theatres and Loews Cineplex Entertainment.

It was only after the dot-com bust that Marks gained notoriety for his memos. On Jan. 3, 2000, he sounded a warning in a piece entitled "Bubble.com."

"To say technology, Internet and telecommunications stocks are too high and about to decline is comparable today to standing in front of a freight train," Marks wrote. "To say they have benefited from a boom of colossal proportions and should be examined skeptically is something I feel like I owe you." As markets crashed in March, he received his first response in 10 years.

TCW's managers seized on the opportunity, Karsh says.

"This was a tech, telecom bubble that burst; there were a lot of power companies and bankruptcies of companies involved in corporate scandals like Enron, WorldCom and Adelphia," Karsh says. "For two years in a row, there were double-digit default rates in the high-yield-bond market. We had a sense it was coming. We raised our biggest fund ever and took maximum advantage." In 2002, Marks bought debt of downgraded telecom companies including Qwest and Nortel Networks.

A few years later, as the newspaper industry faltered, Oaktree invested an undisclosed amount in Tribune's senior loans, which the Chicago Tribune publisher had used in 2007 to buy out shareholders and go private. Oaktree is one of three lenders that hold more than a combined $3.38 billion of the roughly $8 billion in loans Tribune took out as part of the LBO, according to court documents.

Under Tribune's proposed reorganization plan, the three lenders will trade the debt they hold for at least a 30 percent stake in the newspaper publisher once it exits bankruptcy. Oaktree's share will be at least 10 percent, according to FCC documents.

At times, Oaktree will invest in a single company in multiple ways. In July 2009, Oaktree joined a group of investors bailing out CIT with a $3 billion emergency loan after the U.S. declined to rescue the New York lender for a second time. Oaktree also participated in an exit facility and bought CIT's bonds.

A following

Marks divides his time between London, Los Angeles and New York, sending his investing missives to Oaktree's 1,800 clients worldwide. He keeps in shape with calisthenics and a yoga-inspired stretching regimen. After finding the vegan diet prescribed by his wife, Nancy, to be too rigid while traveling, he's sticking with the protein, vegetables and beans suggested by his son, Andrew, who works at a hedge fund in New York. His daughter, Jane, works in New York too, in the art world.

Oaktree is targeting its newest investment pools in small and midsize deals in Europe and in real estate, the next fronts for distressed investors, two people briefed on the firm's plans say. Oaktree thinks companies in Europe, where several countries have been forced to restructure their debt, are likely to come under pressure to sell assets to raise capital, one person says.

Oaktree's European fund will aim to raise $2 billion to $3 billion. Oaktree is also looking at U.S. property transactions. It expects owners to sell their holdings after paying top dollar for them in the real-estate boom of 2005 to 2007. That fund will total about $1 billion. Marks declined to give details of those funds.

"There are times when it is important to invest cautiously, and there are times when it's important to invest aggressively," Marks says. "A big part of the job is knowing where we are and choosing between those two. We believe that compared to one year, two years, maybe three years ago, this is the time to invest cautiously."

Howard Marks's Missives, Now for the Masses
New York Times, Dealbook
By Peter Lattman
12 May 2011

The writings of Howard Marks, chairman of Oaktree Capital Management, have a cult following on Wall Street.

Published about six times a year, his memos to Oaktree clients have become required reading in certain investment circles. The dispatches have been praised by everyone from Warren E. Buffett to "Tyler Durden," the anonymous blogger for Zero Hedge, the popular finance Web site. Mr. Durden recently called Mr. Marks "one of the most thoughtful observers on the markets" and described his recent memo on gold as a "must read."

After 20 years of churning out the letters, Mr. Marks is now a published author. His book, "The Most Important Thing," was released last week by Columbia Unversity Press. In 192-pages, he weaves excerpts from two decades' worth of the missives into a single volume, dispensing gobs of investing insights obtained in his 42-year career.

Oaktree, based in Los Angeles, manages $82 billion for clients, mostly in fixed-income strategies. Mr. Marks and four co-founders started the firm in 1995 after spinning out from the asset manager TCW. Before TCW, Mr. Marks, a native New Yorker, spent 16 years at Citibank, where he began as a stock analyst and later managed convertible and high-yield bond portfolios.

DealBook's Peter Lattman recently caught up with Mr. Marks, who was back at work in London after returning from his 65th birthday celebration in Spain.

Q. When did you realize that your memos were reaching a broader audience than just your clients and colleagues?

A. Well, I wrote the first memo in 1990, and it was two pages about what I called "The Route to Performance," how it's through consistency and loss avoidance rather than spectacular achievements. And I had no response. On the first day of 2000, I published one called "Bubble.com," about how I thought that the tech stocks were a bubble. Within a few months that proved right. I then started to hear from people. So after 10 years I became an overnight success.

Q. The book's title comes from your first 19 chapters, each one arguing this thing or that thing is the most important thing in investing. Who came up with that device?

A. Actually, I've used it before. I published a memo several years ago called "The Most Important Thing." I wrote that I found myself sitting in a client's office saying the most important thing is controlling risk. And then 15 minutes later I say the most important thing is buying cheap. And then 15 minutes after that, I say the most important thing is realizing that you don't know what the future holds. So I said these are all the most important things.

Q. The book draws heavily on newspaper articles and the writings and quotes of famous investors, even Mark Twain. I have this image of your traveling around with a pair of scissors and a burgeoning file of newspaper clippings. Tell me about your writing process.

A. That's just what I've been doing this morning. I have a clip file spread out on my desk for the next memo. It's working title is "How Quickly They Forget," and it's about short memories and how that dooms people to repeating mistakes. Nobody remembers the crisis anymore.

Q. I recall a John Kenneth Galbraith quote from your book related to that.

A. Galbraith said: "Contributing to euphoria are two further factors little noted in our time or past times. The first is extreme brevity of a financial memory. Financial disaster is quickly forgotten. When the same or closely similar circumstances occur again, sometimes only in a few years, they are hailed by a new, often youthful, and always supremely self-confident generation as a brilliantly innovative discovery." What could be more true of the years leading up to the crisis?

Q. You call Los Angeles home, but for the past half-decade you and your wife, Nancy, have spent four months a year living in London. What effect has that had on your investment outlook?

A. I think it has given me, and hopefully the firm, a more global perspective. London is now our second largest office. The other thing is that I find it very interesting to look at the United States from the outside.

I'll give you one brief example. Think about gold. We tend to think that what's been happening with the price of gold is that it is now worth more dollars than it used to be. But outside the United States when you talk to people, you see people think that it's not an increase in the price of gold in terms of dollars but a decrease in the price of dollars in terms of gold. And seeing it reflectively like that I think is very helpful.

Q.Other than you and your Oaktree colleagues, if you had to pick one person to manage your money who would you choose and why?

A.In the late '60s, when I was a rookie analyst following office equipment companies, a portfolio manager asked me, "Who's the best sell-side analyst on Xerox?" I answered, "The one who thinks most like me is so-and-so." As far as I can tell, Seth Klarman of the Baupost Group and I think the most alike. His returns are great and his risk control is stellar.

Q. In your book you mention Michael Milken as a major influence. His creation of the junk bond market played a key role in your career.

A. Marshall McLuhan said "the medium is the message." I think high-yield bonds have been the medium for a lot of my philosophy. Your philosophy comes from the events you live through. I started at Citibank in the late '60s when the bank was what was called a Nifty Fifty investor. It bought the stocks of the best companies in America: IBM, Xerox, Merck, Coke, etc. Once analysts ascertained that the growth prospects were bright, the stocks were bought without regard to valuation and we ended up paying P.E. ratios in the 80s and 90s. A few years later you had lost 90 percent of your money.

Then I met Mike Milken in '78, and he said if you buy the bonds of B-rated companies and they survive, all the surprises will be on the upside, and a little light bulb went on. I realized that you could invest in the debt of the worst companies in America and make a lot of money if you were paid an appropriate risk premium. That's really a big part of the philosophy, that quality investing is not about buying good things, it's about buying things well. The most important thing is the relationship between price and value. If you can figure out the fair value of an asset and buy it for less, that is the best, most dependable way to invest.

Q. You mention Milken but not me, which is frankly a bit disappointing because I once make an appearance in one of your memos, albeit anonymously.

A. That memo was from early October 2008. We were speaking and I told you we were buying aggressively, and you said to me, "You are?!" That conversation became the basis for a memo. We decided that if we're spending a lot of our clients' money during what some people thought was about to be the end of the world, we should at least fill them in. So we talked about how this is the third debt crisis we've lived through, and to us the pattern was obvious and the wrongness of not buying was obvious. There's a canard that people retreat behind in a crisis. They say you really shouldn't try to catch a falling knife and they say we're waiting for the dust to settle and the uncertainly to be resolved. Then by the time the dust settles and the uncertainty is resolved and the knife clearly stops falling, there are no more bargains.