Och-Ziff Capital Management Group LLC
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018
Commission File Number 001-33805

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
(Exact Name of Registrant as Specified in its Charter)

Delaware	26-0354783
(State of Incorporation)	(I.R.S. Employer Identification Number)

9 West 57th Street, New York, New York 10019
(Address of Principal Executive Offices)
Registrant’s telephone number: (212) 790-0000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer ¨		Accelerated filer	þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)		Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of April 26, 2018, there were 191,134,505 Class A Shares and 304,339,478 Class B Shares outstanding.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
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Defined Terms	
2007 Offerings	Refers collectively to our IPO and the concurrent private offering of approximately 38.1 million Class A Shares to DIC Sahir Limited, a wholly owned indirect subsidiary of Dubai Holdings LLC
active executive managing directors	Executive managing directors who remain active in our business
Annual Report	Our annual report on Form 10-K for the year ended December 31, 2017, dated February 23, 2018 and filed with the SEC
Class A Shares	Our Class A Shares, representing Class A limited liability company interests of Och-Ziff Capital Management Group LLC, which are publicly traded and listed on the NYSE
Class B Shares	Class B Shares of Och-Ziff Capital Management Group LLC, which are not publicly traded, are currently held solely by our executive managing directors and have no economic rights but entitle the holders thereof to one vote per share together with the holders of our Class A Shares
CLOs	Collateralized loan obligations
Exchange Act	Securities Exchange Act of 1934, as amended
executive managing directors	The current limited partners of the Oz Operating Partnerships other than our intermediate holding companies, including our founder, Daniel S. Och, and, except where the context requires otherwise, include certain limited partners who are no longer active in our business
funds	The multi-strategy funds, dedicated credit funds, including opportunistic credit funds and Institutional Credit Strategies products, real estate funds and other alternative investment vehicles for which we provide asset management services
GAAP	U.S. generally accepted accounting principles
Group A Units	Refers collectively to one Class A operating group unit in each of the Oz Operating Partnerships. Group A Units are equity interests held by our executive managing directors
Group B Units	Refers collectively to one Class B operating group unit in each of the Oz Operating Partnerships. Group B Units are equity interests held by our intermediate holding companies
Group D Units	Refers collectively to one Class D operating group unit in each of the Oz Operating Partnerships. Group D Units are non-equity, limited partner profits interests held by our executive managing directors
Group P Units	Refers collectively to one Class P operating group unit in each of the Oz Operating Partnerships. Group P Units are equity interests held by our executive managing directors
Institutional Credit Strategies	Our asset management platform that invests in performing credits, including leveraged loans, high-yield bonds, private credit/bespoke financing and investment grade credit via CLOs and other customized solutions

intermediate holding companies	Refers collectively to Oz Corp and Oz Holding, both of which are wholly owned subsidiaries of Och-Ziff Capital Management Group LLC
IPO	Our initial public offering of 36.0 million Class A Shares that occurred in November 2007

NYSE	New York Stock Exchange
the Company, the firm, we, us, our	Refers, unless the context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Oz Operating Group
Oz Corp	Och-Ziff Holding Corporation, a Delaware corporation
Oz Holding	Och-Ziff Holding LLC, a Delaware limited liability company
Oz Operating Group	Refers collectively to the Oz Operating Partnerships and their consolidated subsidiaries
Oz Operating Partnerships	Refers collectively to OZ Management LP, OZ Advisors LP and OZ Advisors II LP
Partner Equity Units	Refers collectively to the Group A Units and Group P Units
Preferred Units	One Class A cumulative preferred unit in each of the Oz Operating Partnerships collectively represents one “Preferred Unit.” Certain of our executive managing directors collectively own 100% of the Preferred Units
Registrant	Och-Ziff Capital Management Group LLC, a Delaware limited liability company
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Special Investments	Investments that we, as investment manager, believe lack a readily ascertainable market value, are illiquid or should be held until the resolution of a special event or circumstance
Ziffs	Refers collectively to Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons

Available Information
We file annual, quarterly and current reports, proxy statements and other information required by the Exchange Act with the SEC. We make available free of charge on our website (www.ozm.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to those filings as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also use our website to distribute company information, and such information may be deemed material. Accordingly, investors should monitor our website, in addition to our press releases, SEC filings and public conference calls and webcast. The contents of our website are not, however, a part of this report.
Also posted on our website in the "Public Investors – Corporate Governance" section are charters for our Audit Committee; Compensation Committee; Nominating, Corporate Governance and Conflicts Committee and Corporate Responsibility and Compliance Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report or any other SEC filing. Copies of our SEC filings or corporate governance materials are available without charge upon written request to Och-Ziff Capital Management Group LLC, 9 West 57th Street, New York, New York 10019, Attention: Office of the Secretary.
Any materials we file with the SEC are also publicly available through the SEC's website (www.sec.gov) or may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.
No statements herein, available on our website or in any of the materials we file with the SEC constitute, or should be viewed as constituting, an offer of any fund.
Forward-Looking Statements
Some of the statements under "Part I — Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," which we refer to as the "MD&A," "Part I — Item 3. Quantitative and Qualitative Disclosures About Market Risk," "Part II — Item 1A. Risk Factors" and elsewhere in this quarterly report may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that reflect our current views with respect to, among other things, future events and financial performance. We generally identify forward-looking statements by terminology such as "outlook," "believe," "expect," "potential," "continue," "may," "will," "sho "could," "seek," "approximately," "predict," "intend," "plan," "estimate," "anticipate," "opportunity," "comfortable," "assume "maintain," "sustain," "achieve," "see," "think," "position" or the negative version of those words or other comparable words. Any forward-looking statements contained herein are based upon historical information and on our current plans, estimates and expectations. The inclusion of this or other forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.
We caution that forward-looking statements are subject to numerous assumptions, estimates, risks and uncertainties, including but not limited to the following: global economic, business, market and geopolitical conditions; U.S. and foreign regulatory developments relating to, among other things, financial institutions and markets, government oversight, fiscal and tax policy; the outcome of third-party litigation involving us; the consequences of the Foreign Corrupt Practices Act settlements with the SEC and the U.S. Department of Justice (the "DOJ"); conditions impacting the alternative asset management industry; our ability to retain existing fund investor capital; our ability to successfully compete for fund investors, assets, professional talent and investment opportunities; our ability to retain our active executive managing directors, managing directors and other investment professionals; our successful formulation and execution of our business and growth strategies; our ability to appropriately manage conflicts of interest and tax and other regulatory factors relevant to our business; and assumptions relating to our operations, investment performance, financial results, financial condition, business prospects, growth strategy and liquidity.
If one or more of these or other risks or uncertainties materialize, or if our assumptions or estimates prove to be incorrect, our actual results may vary materially from those indicated in these statements. These factors are not and should not be

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construed as exhaustive and should be read in conjunction with the other cautionary statements and risks that are included in our filings with the SEC, including but not limited to our Annual Report.

There may be additional risks, uncertainties and factors that we do not currently view as material or that are not known. The forward-looking statements contained in this report are made only as of the date of this report. We do not undertake to update any forward-looking statement because of new information, future developments or otherwise.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED BALANCE SHEETS — UNAUDITED

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Assets		
Cash and cash equivalents	$ 609,240	$ 469,513
Investments (includes assets measured at fair value of $294,418 and $224,722 as of March 31, 2018 and December 31, 2017, respectively)	309,181	238,974
Income and fees receivable	67,803	354,456
Due from related parties	33,451	28,202
Deferred income tax assets	361,739	375,230
Other assets, net	94,108	116,361
Assets of consolidated funds:		
Investments of consolidated funds, at fair value	67,625	43,366
Other assets of consolidated funds	42,454	13,331
Total Assets	$ 1,585,601	$ 1,639,433
Liabilities and Shareholders’ (Deficit) Equity		
Liabilities		
Compensation payable	$ 26,318	$ 208,639
Unearned incentive	55,218	143,710
Due to related parties	281,512	281,555
Debt obligations	632,693	569,379
Other liabilities	58,578	75,122
Liabilities of consolidated funds:		
Other liabilities of consolidated funds	41,908	11,340
Total Liabilities	1,096,227	1,289,745
Commitments and Contingencies (Note 15)		
Redeemable Noncontrolling Interests (Note 3)	468,012	445,617
Shareholders’ (Deficit) Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 191,129,773 and 189,573,210 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	—	—
Class B Shares, no par value, 750,000,000 shares authorized, 304,339,478 and 339,339,478 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	—	—
Paid-in capital	3,111,139	3,102,074
Accumulated deficit	(3,524,919)	(3,555,905)
Shareholders’ deficit attributable to Class A Shareholders	(413,780)	(453,831)
Shareholders’ equity attributable to noncontrolling interests	435,142	357,902
Total Shareholders’ (Deficit) Equity	21,362	(95,929)
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders’ (Deficit) Equity	$ 1,585,601	$ 1,639,433

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) — UNAUDITED

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Revenues		
Management fees	$72,450	$ 86,255
Incentive income	50,834	51,626
Other revenues	4,542	776
Income of consolidated funds	584	495
Total Revenues	128,410	139,152
Expenses		
Compensation and benefits	68,924	69,943
Interest expense	6,598	6,280
General, administrative and other	37,850	45,928
Expenses of consolidated funds	84	84
Total Expenses	113,456	122,235
Other Income		
Net gains on investments in funds and joint ventures	312	721
Net gains of consolidated funds	492	235
Total Other Income	804	956
Income Before Income Taxes	15,758	17,873
Income taxes	3,012	12,056
Consolidated and Comprehensive Net Income	12,746	5,817
Less: Income attributable to noncontrolling interests	(8,635)	(9,778)
Less: Income attributable to redeemable noncontrolling interests	(621)	(350)
Net Income (Loss) Attributable to Och-Ziff Capital Management Group LLC	3,490	(4,311)
Less: Change in redemption value of Preferred Units	—	(2,853)
Net Income (Loss) Attributable to Class A Shareholders	$3,490	$ (7,164)
Earnings (Loss) per Class A Share		
Income (Loss) per Class A Share - basic	$0.02	$ (0.04)
Income (Loss) per Class A Share - diluted	$0.02	$ (0.04)
Weighted-average Class A Shares outstanding - basic	192,230,917	186,226,675
Weighted-average Class A Shares outstanding - diluted	456,787,062	186,226,675
Dividends Paid per Class A Share	$0.07	$ 0.01

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) — UNAUDITED

	Och-Ziff Capital Management Group LLC						
	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Accumulated Deficit	Shareholders' Deficit Attributable to Class A Shareholders	Shareholders' Equity Attributable to Noncontrolling Interests	Total Shareholders' Equity (Deficit)
			(dollars in thousands)				
As of December 31, 2017	189,573,210	339,339,478	$3,102,074	$(3,555,905)	$(453,831)	$357,902	$(95,929)
Impact of adoption of ASU 2014-09	—	—	—	41,922	41,922	75,062	116,984
Capital contributions	—	—	—	—	—	750	750
Capital distributions	—	—	—	—	—	(17,690)	(17,690)
Cash dividends declared on Class A Shares	—	—	—	(13,354)	(13,354)	—	(13,354)
Dividend equivalents on Class A restricted share units	—	—	1,072	(1,072)	—	—	—
Equity-based compensation, net of taxes	1,556,563	(35,000,000)	7,803	—	7,803	10,673	18,476
Impact of changes in Oz Operating Group ownership (Note 3)	—	—	190	—	190	(190)	—
Comprehensive net income, excluding amounts attributable to redeemable noncontrolling interests	—	—	—	3,490	3,490	8,635	12,125
As of March 31, 2018	191,129,773	304,339,478	$3,111,139	$(3,524,919)	$(413,780)	$435,142	$21,362

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Cash Flows from Operating Activities		
Consolidated net income	$12,746	$5,817
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Amortization of equity-based compensation	22,171	18,478
Depreciation, amortization and net gains and losses on fixed assets	2,372	4,212
Deferred income taxes	2,157	10,609
Net gains on investments in funds and joint ventures	(312)	(721)
Operating cash flows due to changes in:		
Income and fees receivable	315,488	116,319
Due from related parties	(5,248)	1,142
Other assets, net	23,342	18,070
Compensation payable	(184,414)	(166,951)
Unearned incentive income	10,930	4,791
Due to related parties	(43)	113
Other liabilities	(16,435)	(19,693)
Consolidated funds related items:		
Net gains of consolidated funds	(492)	(235)
Purchases of investments	(87,438)	(47,831)
Proceeds from sale of investments	63,739	49,750
Other assets of consolidated funds	(29,191)	(3,068)
Other liabilities of consolidated funds	30,567	1,456
Net Cash Provided by (Used in) Operating Activities	159,939	(7,742)
Cash Flows from Investing Activities		
Purchases of fixed assets	(1,205)	(1,335)
Proceeds from sale of fixed assets	—	51,724
Purchases of United States government obligations	(7,435)	—
Maturities of United States government obligations	13,000	—
Investments in funds	(77,990)	(212)
Return of investments in funds	3,353	3,373
Net Cash (Used in) Provided by Investing Activities	(70,277)	53,550

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS — (continued)

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Cash Flows from Financing Activities		
Issuance and sale of Preferred Units, net of issuance costs	—	150,054
Contributions from noncontrolling and redeemable noncontrolling interests	22,857	251
Distributions to noncontrolling and redeemable noncontrolling interests	(18,023)	(4,563)
Dividends on Class A Shares	(13,354)	(1,849)
Proceeds from debt obligations	60,719	—
Repayment of debt obligations	(69)	(167,319)
Principal payments under capital lease obligations	(462)	—
Withholding taxes paid on vested RSUs	(1,327)	(385)
Equity-classified RSUs settled in cash	(276)	—
Net Cash Provided by (Used in) Financing Activities	50,065	(23,811)
Net Change in Cash and Cash Equivalents	139,727	21,997
Cash and Cash Equivalents, Beginning of Period	469,513	329,813
Cash and Cash Equivalents, End of Period	$609,240	$351,810
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest	$1,362	$1,960
Income taxes	$644	$1,149

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
MARCH 31, 2018

1. OVERVIEW

Och-Ziff Capital Management Group LLC (the “Registrant”), a Delaware limited liability company, together with its consolidated subsidiaries (collectively, the “Company”), is a global alternative asset management firm with offices in New York, London, Hong Kong, Mumbai, Beijing, Shanghai and Houston. The Company provides asset management services to its investment funds, which pursue a broad range of global investment opportunities. The Company currently manages multi-strategy funds, dedicated credit funds, including opportunistic credit funds and Institutional Credit Strategies products, real estate funds and other alternative investment vehicles (collectively the “funds”). Through Institutional Credit Strategies, the Company’s asset management platform that invests in performing credits, the Company manages collateralized loan obligations (“CLOs”) and other customized solutions for clients.

The Company’s primary sources of revenues are management fees, which are based on the amount of the Company’s assets under management, and incentive income, which is based on the investment performance of its funds. Accordingly, for any given period, the Company’s revenues will be driven by the combination of assets under management and the investment performance of the funds.

The Company currently has two operating segments: the Oz Funds Segment and the Company’s real estate business. The Oz Funds segment is currently the Company’s only reportable operating segment under U.S. generally accepted accounting principles (“GAAP”) and provides asset management services to the Company’s multi-strategy funds, dedicated credit funds and other alternative investment vehicles. The Company’s real estate business, which provides asset management services to its real estate funds, is included within Other Operations, as it does not meet the threshold of a reportable operating segment.

The Company generates substantially all of its revenues in the United States. The liability of the Company’s Class A Shareholders is limited to the extent of their capital contributions.

The Company conducts its operations through OZ Management LP, OZ Advisors LP and OZ Advisors II LP and their consolidated subsidiaries (collectively, the “Oz Operating Group”). References to the Company’s “executive managing directors” refer to the current limited partners of OZ Management LP, OZ Advisors LP and OZ Advisors II LP other than the Company’s intermediate holding companies, and include the Company’s founder, Daniel S. Och, and, except where the context requires otherwise, include certain limited partners who are no longer active in the business of the Company. References to the Company’s “active executive managing directors” refer to executive managing directors who remain active in the Company’s business. References to the “Ziffs” refer collectively to Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons. References to the Company’s “intermediate holding companies” refer, collectively, to Och-Ziff Holding Corporation (“Oz Corp”) and Och-Ziff Holding LLC, each of which are wholly owned subsidiaries of the Registrant.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited, interim, consolidated financial statements are prepared in accordance with GAAP as set forth in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”), and should be read in conjunction with the audited consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”). In the opinion of management, all adjustments considered necessary for a fair presentation of the Company’s unaudited, interim, consolidated financial statements have been included and are of a normal and recurring nature. All significant intercompany transactions and balances have been eliminated in consolidation.

The results of operations presented for the interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. For example, incentive income for the majority of the Company’s multi-strategy assets under management is recognized in the fourth quarter each year, based on full year investment performance.

Revenue Recognition Policies

The Company provides asset management services to its customers, including certain administrative services related to the funds' operations, in exchange for management and incentive fees, which are included in the Company's agreements with its customers. The services provided in connection with the identified performance obligations are satisfied over time. The agreements are generally automatically renewed on an annual basis unless the agreements are terminated by the general partner or directors of the respective funds.

Management Fees

Management fees for the Company's multi-strategy funds typically range from 0.97% to 2.50% annually of assets under management based on the net asset value of these funds. For the Company's opportunistic credit funds, management fees typically range from 0.75% to 1.75% based on the net asset value of these funds. Management fees for the Company's CLOs within Institutional Credit Strategies are generally range from 0.43% to 0.50% based on the par value of the collateral and cash held in the CLOs. Management fees for the Company's real estate funds typically range from 0.75% to 1.50% annually based on the amount of capital committed or invested during the investment period, and on the amount of invested capital after the investment period. Management fees are recognized over the period during which the related services are performed.

Management fees are generally calculated and paid to the Company on a quarterly basis in advance, based on the amount of assets under management at the beginning of the quarter. Management fees are prorated for capital inflows and redemptions during the quarter. Accordingly, changes in the Company's management fee revenues from quarter to quarter are driven by changes in the quarterly opening balances of assets under management, the relative magnitude and timing of inflows and redemptions during the respective quarter, as well as the impact of differing management fee rates charged on those inflows and redemptions.

The Company considers management fees to be a form of variable consideration, as the amount earned each quarter may depend on various contingencies, such as the value of assets under management, capital inflows and outflows during the period, or changes in committed or invested capital. Management fees, however, are generally crystallized at the end of each reporting period and are not subject to clawback and, therefore, the value of the management fees the Company is entitled to receive at the end of each quarter is generally no longer subject to the constraint.

Incentive Income

The Company earns incentive income based on the cumulative performance of the funds over a commitment period. Prior to the adoption of new revenue recognition accounting guidance in 2018, incentive income was recognized at the end of the applicable commitment period when the amounts were contractually payable, or "crystallized," and when no longer subject to clawback. Beginning in 2018, as a result of the adoption of the new revenue recognition accounting guidance, the Company recognizes incentive income when such amounts are probable of not significantly reversing.

Incentive income is typically equal to 20% of the realized and unrealized profits, net of management fees, attributable to each fund investor in the Company's multi-strategy funds, open-end opportunistic credit funds and certain other funds, but it excludes unrealized gains and losses attributable to investments that the Company, as investment manager, believes lack a readily ascertainable market value, are illiquid or should be held until the resolution of a special event or circumstance ("Special Investments"). For the Company's closed-end opportunistic credit funds, real estate funds and certain other funds, incentive income is typically equal to 20% of the realized profits, net of management fees, attributable to each fund investor. For CLOs, incentive income is typically 20% of the excess cash flows available to the holders of the subordinated notes.

The Company's ability to earn incentive income from some of its funds may be impacted by hurdle rates, whereby the Company is not entitled to incentive income until the investment returns exceed an agreed upon benchmark. For a portion of these assets subject to hurdle rates, once the investment performance has exceeded the hurdle rate, the Company may receive a preferential "catch-up" allocation, equal to a full 20% of the net profits attributable to investors in these assets.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
MARCH 31, 2018

All of the Company's multi-strategy funds and open-end opportunistic credit funds are subject to a perpetual loss carry forward, or perpetual "high-water mark," meaning the Company will not be able to earn incentive income with respect to positive investment performance it generates for a fund investor in any year following negative investment performance until that loss is recouped, at which point a fund investor's investment surpasses the high-water mark. The Company earns incentive income on any profits, net of management fees, in excess of the high-water mark.

The commitment period for most of the Company's multi-strategy assets under management is for a period of one year on a calendar-year basis, and therefore it generally crystallizes incentive income annually on December 31. The Company may also recognize incentive income related to fund investor redemptions at other times during the year, as well as on assets under management subject to commitment periods that are longer than one year. The Company may also recognize incentive income for tax distributions related to these assets. Such distributions are amounts distributed to the Company to cover tax liabilities related to incentive income that has been accrued at the fund level but would otherwise not be recognized by the Company until it is probable that a significant reversal will not occur. These distributions are not subject to clawback once distributed to the Company.

Incentive income is considered variable consideration, the recognition of which is subject to constraint. Incentive income is no longer constrained when it is probable that a significant reversal will not occur. Determining the amount of incentive income to record is subject to qualitative and quantitative factors including, where a fund is in its life-cycle, whether the Company has received or is entitled to receive incentive income and potential sales of fund investments. The Company continuously evaluates whether there are additional considerations that could potentially impact the recognition of incentive income. To the extent that distributions have been received, but for which the recognition of incentive income is not appropriate, the Company will recognize a liability for unearned incentive income.

See Note 9 for additional information regarding the Company's revenues.

Other Revenues

Other revenues consist primarily of interest income on investments in CLOs and cash and cash equivalents. Interest income is recognized on an effective yield basis. Additionally, prior to the sale of the Company's aircraft in the first half of 2017, revenue related to non-business use of the corporate aircraft by certain executive managing directors was also included within other revenues. Revenue earned from non-business use of the corporate aircraft was recognized on an accrual basis based on actual flight hours.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted ASU 2014-09 using a modified retrospective application approach as of the beginning of the first quarter of 2018 to all contracts within the scope of the standard as of the date of adoption. As a result of the adoption of ASU 2014-09, the Company was required to recognize certain incentive income earlier than as prescribed under guidance in effect for fiscal year 2017, as the threshold for recognition of incentive income under ASU 2014-09 is that such amounts are probable of not significantly reversing. Prior to adoption to ASU 2014-09, the threshold for recognition was when incentive income was no longer subject to clawback and all contingencies had been resolved. The Company recognized an opening adjustment to shareholders' equity of $117.0 million, which is net of $11.3 million of income tax, of which $41.9 million was attributable to Class A shareholders.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
MARCH 31, 2018

The following table details the post-tax impact on the Company's opening shareholders' equity, by fund type, upon the adoption of ASU 2014-09:

	(dollars in thousands)
Multi-strategy funds	$ 2,727
Opportunistic credit funds	24,462
Real estate funds	89,795
Total	$ 116,984

The adoption of this guidance resulted in a decrease to the liability for unearned incentive income of $99.4 million and an increase in income and fees receivable of $28.8 million.

None of the other changes to GAAP that went into effect in the three months ended March 31, 2018 had a material effect on the Company's consolidated financial statements.

Future Adoption of Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 significantly changes accounting for lease arrangements, in particular from the perspective of the lessee. The Company is not currently a lessor in any significant lease arrangements, but is a lessee in several lease arrangements that would be impacted by the ASU. The Company has determined that most of its operating leases will be reported as lease obligations, along with offsetting right to use assets on its consolidated balance sheet at their present value, and will continue to recognize associated expenses within consolidated net income (loss) in a manner similar to the existing accounting for leases (i.e., on a straight-line basis over the lease term). Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The requirements of ASU 2016-02 are effective for the Company beginning in the first quarter of 2019. See Note 15 of the Company's Annual Report for details related to the Company's existing operating lease obligations.

None of the other changes to GAAP that are not yet effective are expected to have a material effect on the Company's consolidated financial statements.

3. NONCONTROLLING INTERESTS AND OZ OPERATING GROUP OWNERSHIP

Noncontrolling interests represent ownership interests in the Company's subsidiaries held by parties other than the Company, and primarily relate to the Group A Units held by the Company's executive managing directors and fund investors' interests in the consolidated funds. Net income attributable to the Group A Units is driven by the earnings of the Oz Operating Group. Net income attributable to fund investors' interests in consolidated funds is driven by the earnings of those funds.

The following table presents the components of the net income attributable to noncontrolling interests:

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Group A Units	$8,370	$9,635
Other	265	143
	$8,635	$9,778

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The following table presents the components of the shareholders' equity attributable to noncontrolling interests:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Group A Units	$430,535	$ 353,791
Other	4,607	4,111
	$435,142	$ 357,902

The Preferred Units and fund investors' interests in certain consolidated funds are redeemable outside of the Company's control. These interests are classified within redeemable noncontrolling interests in the consolidated balance sheets. The following table presents the activity in redeemable noncontrolling interests:

	Three Months Ended March 31, 2018		
	Consolidated Funds	Preferred Units	Total
	(dollars in thousands)		
Beginning balance	$25,617	$420,000	$445,617
Capital contributions	22,107	—	22,107
Capital distributions	(333)	—	(333)
Comprehensive income	621	—	621
Ending Balance	$48,012	$420,000	$468,012

Oz Operating Group Ownership

The Company's equity interest in the Oz Operating Group increased to 42.2% as of March 31, 2018, from 41.5% as of December 31, 2017, (excluding Group P Units, as they are not yet participating in the economics of the Oz Operating Group). Changes in the Company's interest in the Oz Operating Group have historically been, and in the future may be, driven by the following: (i) the exchange of Group A Units and Group P Units for an equal number of Class A Shares, at which time the related Class B Shares are also canceled; (ii) the issuance of Class A Shares under the Company's Amended and Restated 2007 Equity Incentive Plan and 2013 Incentive Plan related to the settlement of RSUs or Class A performance-based RSUs ("PSUs"); (iii) the forfeiture of Group A Units and Group P Units by a departing executive managing director; and (iv) the repurchase of Class A Shares and Group A Units. The Company's interest in the Oz Operating Group is expected to continue to increase over time as additional Class A Shares are issued upon the exchange of Group A Units and Group P Units, as well as the settlement of vested RSUs or PSUs. These increases will be offset upon any conversion by an executive managing director of Group D Units, which are not considered equity for GAAP purposes, into Group A Units, at which time an equal number of Class B Shares is also issued to the executive managing director. Additionally, the Company's economic interest in the Oz Operating Group will decline when Group P Units begin to participate, as described in Note 10 in the Annual Report.

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4. INVESTMENTS AND FAIR VALUE DISCLOSURES

The following table presents the components of the Company's investments as reported in the consolidated balance sheets:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
United States government obligations, at fair value[(1)]	$7,448	$ 12,973
CLOs, at fair value	286,970	211,749
Other funds and joint ventures, equity method	14,763	14,252
Total Investments	$309,181	$ 238,974

(1) Held by the Oz Operating Group and matures on August 16, 2018.

Fair Value Disclosures

Fair value represents the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (i.e., an exit price). Due to the inherent uncertainty of valuations of investments that are determined to be illiquid or do not have readily ascertainable fair values, the estimates of fair value may differ from the values ultimately realized, and those differences can be material.

GAAP prioritizes the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of assets and liabilities and the specific characteristics of the assets and liabilities. Assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively-quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

Assets and liabilities measured at fair value are classified into one of the following categories:

- Level I – Fair value is determined using quoted prices that are available in active markets for identical assets or liabilities. The types of assets and liabilities that would generally be included in this category are certain listed equities, U.S. government obligations and certain listed derivatives.
- Level II – Fair value is determined using quotations received from dealers making a market for these assets or liabilities ("broker quotes"), valuations obtained from independent third-party pricing services, the use of models or other valuation methodologies based on pricing inputs that are either directly or indirectly market observable as of the measurement date. The types of assets and liabilities that would generally be included in this category are certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, less liquid equity securities, forward contracts and certain over the-counter ("OTC") derivatives.
- Level III – Fair value is determined using pricing inputs that are unobservable in the market and includes situations where there is little, if any, market activity for the asset or liability. The fair value of assets and liabilities in this category may require significant judgment or estimation in determining fair value of the assets or liabilities. The fair value of these assets and liabilities may be estimated using a combination of observed transaction prices, independent pricing services, relevant broker quotes, models or other valuation methodologies based on pricing inputs that are neither directly or indirectly market observable. The types of assets and liabilities that would generally be included in this category include real estate investments, equity and debt securities issued by private entities, limited partnerships, certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, certain OTC derivatives, residential and commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and investments in affiliated credit funds.

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Fair Value Measurements Categorized within the Fair Value Hierarchy

The following table summarizes the Company's investments measured at fair value on a recurring basis within the fair value hierarchy as of March 31, 2018:

	As of March 31, 2018			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Assets, at Fair Value				
Included within cash and cash equivalents:				
United States government obligations	$62,780	$—	$—	$62,780
Included within investments:				
United States government obligations	$7,448	$—	$—	$7,448
CLOs[(1)]	$—	$—	$286,970	$286,970
Investments of consolidated funds:				
Bank debt	$—	$48,491	$19,134	$67,625

(1) As of March 31, 2018, investments in CLOs had contractual principal amounts of $263.6 million outstanding, which excludes the Company's investments in subordinated tranches of the notes, as these do not have contractual principal payments.

The following table summarizes the Company's investments measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2017:

	As of December 31, 2017			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Assets, at Fair Value				
Included within cash and cash equivalents:				
United States government obligations	$99,704	$—	$—	$99,704
Included within investments:				
United States government obligations	$12,973	$—	$—	$12,973
CLOs[(1)]	$—	$—	$211,749	$211,749
Investments of consolidated funds:				
Bank debt	$—	$24,559	$18,807	$43,366

(1) As of December 31, 2017, investments in CLOs had contractual principal amounts of $189.2 million outstanding, which excludes the Company's investments in subordinated tranches of the notes, as these do not have contractual

principal payments.

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Reconciliation of Fair Value Measurements Categorized within Level III

The Company assumes that any transfers between Level I, Level II or Level III occur at the beginning of the reporting period presented. Gains and losses, excluding those of the consolidated funds are recorded within net gains on investments in funds and joint ventures in the consolidated statements of comprehensive income (loss), and gains and losses of the consolidated funds are recorded within net gains (losses) of consolidated funds.

The following table summarizes the changes in the Company's Level III investments for the three months ended March 31, 2018:

	December 31, 2017	Transfers In	Transfers Out	Investment Purchases	Investment Sales / Settlements	Gains / Losses	March 31, 2018
	(dollars in thousands)						
Assets, at Fair Value							
Included within investments:							
CLOs	$ 211,749	$ —	$ —	$ 76,622	$ (2,775)	$ 1,374	$ 286,970
Investments of consolidated funds:							
Bank debt	$ 18,807	$ 1,004	$ (2,906)	$ 28,560	$ (26,563)	$ 232	$ 19,134

The following table summarizes the changes in the Company's Level III investments for the three months ended March 31, 2017:

	December 31, 2016	Transfers In	Transfers Out	Investment Purchases	Investment Sales / Settlements	Gains / Losses	March 31, 2017
	(dollars in thousands)						
Assets, at Fair Value							
Included within investments:							
CLOs	$ 21,341	$ —	$ —	$ —	$ —	$ 707	$ 22,048
Investments of consolidated funds:							
Bank debt	$ 18,127	$ 771	$ (4,878)	$ 27,497	$ (25,120)	$ 266	$ 16,663

Transfers out of Level III presented in the tables above resulted from the fair values of certain securities becoming market observable, with fair value determined using independent pricing services. Transfers into Level III presented in the table above resulted from the valuation of certain investments with decreased market observability, with fair values determined using independent pricing services. There were no transfers between Levels I and II during the periods presented above.

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The table below summarizes the net change in unrealized gains and losses on the Company's Level III investments held as of the reporting date. These gains and losses are included within net gains of consolidated funds in the Company's consolidated statements of comprehensive income (loss):

	Three Months Ended March 31, 2018	2017
	(dollars in thousands)	
Assets, at Fair Value		
Included within investments:		
CLOs	$974	$707
Investments of consolidated funds:		
Bank debt	$89	$113

Valuation Methodologies for Fair Value Measurements Categorized within Levels II and III

Investments in CLOs and bank debt are valued using independent pricing services and thus there are no unobservable valuation inputs used in determining their fair value to disclose.

The Company elected to measure its investments in CLOs at fair value through consolidated net income (loss) in order to simplify its accounting for these instruments. Changes in fair value of these investments are included within net gains on investments in funds and joint ventures in the consolidated statements of comprehensive income (loss). The Company accrues interest income on its investments in CLOs using the effective interest method.

Valuation Process for Fair Value Measurements Categorized within Level III

The Company has established a Valuation Committee to provide oversight of the monthly valuation results of the investments held by the Company and the funds. The Valuation Committee has assigned the responsibility of performing price verification and related quality controls in accordance with the Valuation Policy to the Valuation Controls Group. The Valuation Controls Group performs price verification procedures on all of the investments which include, but are not limited to the following: reviewing independent pricing provided by third-party valuation vendors, reviewing and collecting broker quotes and reviewing valuation models. The Valuation Controls Group performs additional quality controls to support valuation techniques including but not limited to: back testing, stale pricing reviews, and vendor due diligence. When pricing or verification sources cannot be obtained from external sources or if external prices are deemed unreliable, additional procedures are performed by the Valuation Controls Group, which may include comparing unobservable inputs to observable inputs for similar positions, reviewing subsequent market activities, performing comparisons of actual versus projected performance indicators, and reviewing the valuation methodology and key inputs. Independent third party valuation firms may be used to corroborate internal valuations.

Fair Value of Other Financial Instruments

Management estimates that the carrying value of the Company's other financial instruments, including its debt obligations, approximated their fair values as of March 31, 2018. The Senior Notes are categorized as Level II and the CLO Investments Loans (as defined in Note 8) are categorized as Level III within the fair value hierarchy. The fair value of the Senior Notes and the CLO Investments Loans were determined using independent pricing services.

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Assets Measured at Fair Value on a Non-Recurring Basis

The Company recognizes loans held for sale at the lower of cost or fair value. The Company reports the loans held for sale in other assets, net on its consolidated balance sheet. The Company had $6.5 million and $29.1 million of loans held for sale as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, all $6.5 million of the loans held for sale are categorized as Level II within the fair value hierarchy; and as of December 31, 2017, $26.7 million and $2.4 million loans held for sale are categorized as Level II and Level III within the fair value hierarchy, respectively. The fair value for the loans was determined using independent pricing services.

Loans Sold to CLOs Managed by the Company

During the three months ended March 31, 2018, the Company sold $23.4 million of loans to CLOs managed by the Company, and during three months ended March 31, 2017, the Company sold $27.4 million. These loans were previously purchased by the Company in the open market, and were sold for cash at cost to the CLOs. The loans were accounted for as transfers of financial assets and met the criteria for derecognition under GAAP. As of March 31, 2018 and December 31, 2017, the outstanding principal amount on the loans that have been sold to the CLOs was $77.2 million and $51.7 million, respectively. As of March 31, 2018, there were no delinquencies or credit losses related to the loans sold.

The Company invests in senior secured and subordinated notes issued by certain CLOs to which it sold the loans discussed above. These investments represent retained interests to the Company and are in the form of a 5% vertical strip (i.e., 5% of each of the senior and subordinated tranches of notes issues by each CLO). The retained interests are reported within investments on the Company’s consolidated balance sheet. During the three months ended March 31, 2018, the Company made investments of $24.9 million related to these retained interests. As of March 31, 2018 and December 31, 2017, the Company’s investments in these retained interests had a fair value of $96.1 million and $70.4 million, respectively. The Company is subject to risks associated with the performance of the underlying collateral and the market yield of the assets. The Company’s risk of loss from retained interest is limited to its investments in these interests. The Company receives quarterly payments of interest and principal, as applicable, on these retained interests. In the three months ended March 31, 2018, the Company received $3.7 million of interest and principal payments related to the retained interests. In the three months ended March 31, 2017, the Company received no interest or principal payments related to the retained interests.

The Company uses independent pricing services to value its investments in the CLOs, and therefore the only key assumption is the price provided by such service. A corresponding adverse change of 10% or 20% on price would have a corresponding impact on the fair value of the Company’s investments in CLOs.

5. VARIABLE INTEREST ENTITIES

In the ordinary course of business, the Company sponsors the formation of funds that are considered VIEs. See Note 2 of the Company’s Annual Report for a discussion of entities that are VIEs and the evaluation of those entities for consolidation by the Company.

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The table below presents the assets and liabilities of VIEs consolidated by the Company:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Assets		
Assets of consolidated funds:		
Investments of consolidated funds, at fair value	$67,625	$ 43,366
Other assets of consolidated funds	42,454	13,331
Total Assets	$110,079	$ 56,697
Liabilities		
Liabilities of consolidated funds:		
Other liabilities of consolidated funds	41,908	11,340
Total Liabilities	$41,908	$ 11,340

The assets presented in the table above belong to the investors in those funds, are available for use only by the fund to which they belong, and are not available for use by the Company. The consolidated funds have no recourse to the general credit of the Company with respect to any liability.

The Company’s direct involvement with funds that are VIEs and not consolidated by the Company is generally limited to providing asset management services and, in certain cases, insignificant direct investments in the VIEs. The maximum exposure to loss represents the potential loss of current investments or income and fees receivables from these entities, as well as the obligation to repay unearned revenues, primarily incentive income subject to clawback, in the event of any future fund losses. The Company has commitments to certain funds that are VIEs as discussed in Note 15. The Company does not provide, nor is it required to provide, any type of non-contractual financial or other support to its VIEs that are not consolidated.

The table below presents the net assets of VIEs in which the Company has variable interests along with the maximum risk of loss as a result of the Company’s involvement with VIEs:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Net assets of unconsolidated VIEs in which the Company has a variable interest	$9,809,769	$8,300,163
Maximum risk of loss as a result of the Company’s involvement with VIEs:		
Unearned revenues	55,557	144,124
Income and fees receivable	23,652	24,953
Investments in funds	298,012	222,192
Maximum Exposure to Loss	$377,221	$391,269

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6. OTHER ASSETS, NET

The following table presents the components of other assets, net as reported in the consolidated balance sheets:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Fixed Assets:		
Leasehold improvements	$53,444	$ 53,419
Computer hardware and software	46,592	44,190
Furniture, fixtures and equipment	8,570	8,571
Accumulated depreciation and amortization	(61,081)	(58,671)
Fixed assets, net	47,525	47,509
Goodwill	22,691	22,691
Prepaid expenses	11,119	12,862
Loans held for sale	6,498	29,110
Other	6,275	4,189
Total Other Assets, Net	$94,108	$ 116,361

7. OTHER LIABILITIES

The following table presents the components of other liabilities as reported in the consolidated balance sheets:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Accrued expenses	$22,081	$ 21,955
Interest payable	7,954	2,970
Deferred rent credit	7,730	8,283
Loan trades payable	6,498	29,110
Other	14,315	12,804
Total Other Liabilities	$58,578	$ 75,122

8. DEBT OBLIGATIONS

As of March 31, 2018, other than additional secured loans to finance the purchase of the Company’s investments in CLOs (“CLO Investments Loans”), the Company’s outstanding indebtedness had not changed materially since December 31, 2017 (see the Company’s Annual Report for additional information). However, see Note 17 for events that have occurred subsequent to March 31, 2018, related to the Company’s debt obligations.

CLO Investments Loans

The Company enters into loans to finance portions of its investments in CLOs (collectively “the CLO Investments Loans”). These loans are collateralized by the investments in CLOs held by the Company. In general, the Company will make interest and principal payments on the loans at such time interest payments are received on its investments in the CLOs, and will make principal payments on the loans to the extent principal payments are received on its investments in the CLOs, with any remaining balance due upon maturity.

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The loans are subject to customary events of default and covenants and include terms that require the Company's continued involvement with the CLOs. The CLO Investments Loans do not have any financial maintenance covenants.

The table below presents information related to CLO Investments Loans as of March 31, 2018 and December 31, 2017. Carrying values presented below are net of discounts, if any, and unamortized deferred financing costs. The maturity date for each CLO Investments Loan is the earlier of the final maturity date presented in the table below or the date at which the Company no longer holds a risk retention investment in the respective CLO.

Borrowing Date	Contractual Rate	Final Maturity Date	Carrying Value March 2018	Carrying Value December 2017
			(dollars in thousands)	
November 28, 2016	EURIBOR plus 2.23%	December 15, 2023	$18,482	$18,041
June 7, 2017	LIBOR plus 1.48%	November 16, 2029	17,208	17,217
July 21, 2017	LIBOR plus 1.43%	January 22, 2029	21,674	21,709
August 2, 2017	LIBOR plus 1.41%	January 21, 2030	21,670	21,686
August 17, 2017	LIBOR plus 1.43%	April 30, 2030	22,882	22,922
September 14, 2017	LIBOR plus 1.41%	April 22, 2030	25,426	25,468
September 14, 2017	EURIBOR plus 2.21%	September 14, 2024	20,035	19,561
November 21, 2017	LIBOR plus 1.34%	May 15, 2030	26,188	26,202
January 25, 2018	LIBOR plus 1.24%	July 22, 2030	21,797	—
January 26, 2018	EURIBOR plus 1.62%	January 31, 2025	18,685	—
February 21, 2018	LIBOR plus 1.27%	February 21, 2019	21,091	—
			$235,138	$172,806

9. REVENUES

The following table presents management fees and incentive income recognized as revenues for the three months ended March 31, 2018:

	Management Fees	Incentive Income
	(dollars in thousands)	
Multi-strategy funds	$44,406	$11,832
Credit		
Opportunistic credit funds	11,107	34,235
Institutional Credit Strategies	11,193	—
Real estate funds	4,764	4,767
Other	980	—
Total	$72,450	$50,834

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A liability for unearned incentive income is generally recognized when the Company receives incentive income distributions from its funds, primarily its real estate funds, for which incentive income has not yet met the recognition threshold of being probably that a significant reversal of cumulative revenue will not occur. The following table presents the activity in the Company's unearned incentive income for the three months ended March 31, 2018:

	Unearned Incentive Income (dollars in thousands)
Balance as of December 31, 2017	$ 143,710
Effects of adoption of ASU 2014-09	(99,422)
Amounts collected during the period	15,565
Amounts recognized during the period	(4,635)
Balance as of March 31, 2018	$ 55,218

The Company recognizes management fees over the period in which the performance obligation is satisfied. The Company records incentive income when it is probable that a significant reversal of income will not occur. The majority of management fees and incentive income receivable at each balance sheet date is generally collected during the following quarter.

The following table presents the composition of the Company's income and fees receivable as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Management fees	$ 21,998	$ 21,242
Incentive income	45,805	333,214
Income and Fees Receivable	$ 67,803	$ 354,456

10. EQUITY-BASED COMPENSATION EXPENSES

The Company grants equity-based compensation in the form of RSUs, PSUs (as defined below), Group A Units, Group P Units and Class A Shares to its executive managing directors, employees and the independent members of the Board under the terms of the 2007 Equity Incentive Plan and the 2013 Incentive Plan.

The following table presents information regarding the impact of equity-based compensation grants on the Company's consolidated statements of comprehensive income (loss):

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Expense recorded within compensation and benefits	$ 22,171	$ 18,478
Corresponding tax benefit	$ 1,726	$ 1,782

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The following tables present activity related to the Company's unvested equity awards for the three months ended March 31, 2018:

	Equity-Classified Awards		Liability-Classified Awards		Equity-Classified Awards	
	Unvested RSUs	Weighted-Average Grant-Date Fair Value	Unvested RSUs	Weighted-Average Grant-Date Fair Value	Unvested PSUs	Weighted-Average Grant-Date Fair Value
December 31, 2017	14,530,602	$ 4.67	—	$ —	—	$ —
Granted	27,243,941	$ 2.50	—	$ —	10,000,000	$ 1.18
Vested	(2,206,083)	$ 3.79	—	$ —	—	$ —
Canceled or forfeited	(6,876,584)	$ 3.14	—	$ —	—	$ —
Modified from Group A Units and Group P Units	6,407,968	$ 6.36	7,345,991	$ 6.36	—	$ —
March 31, 2018	39,099,844	$ 3.75	7,345,991	$ 6.36	10,000,000	$ 1.18

	Group A Units		Group P Units	
	Unvested Group A Units	Weighted-Average Grant-Date Fair Value	Unvested Group P Units	Weighted-Average Grant-Date Fair Value
December 31, 2017	8,410,663	$ 9.77	71,850,000	$ 1.25
Vested	(1,200,000)	$ 9.75	—	$ —
Modified to RSUs	(6,000,000)	$ 9.75	(29,000,000)	$ 1.25
March 31, 2018	1,210,663	$ 9.93	42,850,000	$ 1.25

Restricted Share Units (RSUs)

In the three months ended March 31, 2018, a certain executive managing director forfeited 6,000,000 Group A Units and 29,000,000 Group P Units for RSUs and certain other profit-sharing interests. The forfeiture of the Partner Equity Units was accounted for as a modification to 6,407,968 equity-classified RSUs and 7,345,991 liability-classified RSUs, and other awards. The fair value of the modified awards was $6.36 per RSU and was derived from based on the fair value of the original awards immediately before they were modified. The Company will continue to recognize at least the minimum compensation expense that would have been previously recognized prior to the modification.

As of March 31, 2018, total unrecognized compensation expense related to equity-classified awards totaled $120.8 million with a weighted-average amortization period of 3.2 years. As of March 31, 2018, total unrecognized compensation expense related to liability-classified awards totaled $42.3 million with a weighted-average amortization period of 4.0 years. See the Company's Annual Report for additional information regarding RSUs.

The following table presents information related to the settlement of RSUs:

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Fair value of RSUs settled in Class A Shares	$3,845	$ 709

Fair value of RSUs settled in cash	$276	$ —
Fair value of RSUs withheld to satisfy tax withholding obligations	$1,327	$ 385
Number of RSUs withheld to satisfy tax withholding obligations	945,829	173,270

PSUs

In 2018, the Company began granting PSUs. A PSU entitles the holder to receive a Class A Share, or cash equal to the fair value of a Class A Share at the election of the Board of Directors, upon completion of the requisite service period, as well as satisfying certain performance conditions based on achievement of targeted total shareholder return on Class A Shares. PSUs do not begin to accrue dividend equivalents until the requisite service period has been completed and performance conditions have been achieved.

In the three months ended March 31, 2018, the Company granted 10,000,000 of PSUs, at the weighted average grant date fair value $1.18 per unit. The fair value was determined using the Monte-Carlo simulation valuation model, with the following assumptions: volatility of 35%, dividend rate of 10%, and risk-free discount rate of 2.6%. The Company used historical volatility in its estimate of the expected volatility. As of March 31, 2018, total unrecognized compensation expense related to these units totaled $11.2 million with a weighted-average amortization period of 2.9 years.

The PSUs granted to-date vest subject to continued and uninterrupted service ("PSU Service Condition") until the third anniversary of the grant date and the meeting of a market performance threshold of the total shareholder return on Class A Shares of the Company ("PSU Performance Condition"). The PSU Performance Condition is defined as follows: 20% of PSUs vest if a total shareholder return of 25% is achieved; an additional 40% of PSUs vest if a total shareholder return of 50% is achieved; an additional 20% of PSUs vest if a total shareholder return of 75% is achieved; and the final 20% of PSUs vest if a total shareholder return of 125% is achieved. In each case, the PSU Performance Condition must be met for each threshold by the sixth anniversary of the grant date. If the PSU grant has not satisfied both the PSU Service Condition and the PSU Performance Condition by the sixth anniversary of the grant date, it will be forfeited and canceled immediately.

Group A Units

As of March 31, 2018, total unrecognized compensation expense related to these units totaled $8.2 million with a weighted-average amortization period of 2.0 years. See the Company's Annual Report for additional information regarding the Group A Units.

Group P Units

As of March 31, 2018, total unrecognized compensation expense related to the Group P Units totaled $37.3 million with a weighted-average amortization period of 2.6 years. See the Company's Annual Report for additional information regarding the Group P Units.

11. INCOME TAXES

The computation of the effective tax rate and provision at each interim period requires the use of certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent differences, and the likelihood of recovering deferred tax assets existing as of the balance sheet date. The estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as tax laws and regulations change. Additionally, the amount of incentive income and discretionary cash bonuses recorded in any given quarter can have a significant impact on the Company's effective tax rate. Accordingly, the effective tax rate for interim periods is not indicative of the tax rate expected for a full year.

The Registrant and each of the Oz Operating Partnerships are partnerships for U.S. federal income tax purposes. Due to the Company's legal structure, only a portion of the income earned by the Company is subject to corporate-level tax rates in the United States and in foreign jurisdictions.

The provision for income taxes includes federal, state and local taxes in the United States and foreign taxes at an approximate effective tax rate of 19.1% and 67.5% for the three months ended March 31, 2018 and 2017, respectively. The reconciling items from the Company's statutory rate to the effective tax rate were driven primarily by the following: (i) a portion

of the Company's consolidated net income is not subject to federal, state and local corporate income taxes in the United States, as these amounts are allocated to the executive managing directors on their Group A Units; (ii) a portion of the income earned by the Company is subject to the New York City unincorporated business tax; and (iii) certain foreign subsidiaries are subject to foreign corporate income taxes.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA includes a broad range of tax reforms including a reduction in the corporate income tax rate to 21% from 35%, effective January 1, 2018. The Company considers all amounts recorded as a result of the TCJA to be provisional and subject to revision. The Company's provisional amounts, including the remeasurement of the Company's deferred income tax assets and related tax receivable agreement liability, are based on reasonable and supportable assumptions as of March 31, 2018. Any revisions will be treated in accordance with the measurement period guidance allowing for a period of up to one year after the enactment date of the TCJA to finalize the recording of the impact. There were no measurement period adjustments recognizes during the three months ended March 31, 2018.

In accordance with GAAP, the Company recognizes tax benefits for amounts that are "more likely than not" to be sustained upon examination by tax authorities. For uncertain tax positions in which the benefit to be realized does not meet the "more likely than not" threshold, the Company establishes a liability, which is included within other liabilities in the consolidated balance sheets.

As of March 31, 2018 and December 31, 2017, the Company had a liability for unrecognized tax benefits of $7.0 million. As of and for the three months ended March 31, 2018, the Company did not accrue interest or penalties related to uncertain tax positions. As of March 31, 2018, the Company does not believe that there will be a significant change to the uncertain tax positions during the next 12 months. The Company's total unrecognized tax benefits that, if recognized, would affect its effective tax rate was $4.3 million as of March 31, 2018.

12. GENERAL, ADMINISTRATIVE AND OTHER

The following table presents the components of general, administrative and other expenses as reported in the consolidated statements of comprehensive income (loss):

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Professional services	$13,471	$13,148
Information processing and communications	6,794	7,029
Occupancy and equipment	6,465	10,903
Recurring placement and related service fees	4,349	5,444
Insurance	1,852	1,960
Business development	1,090	2,757
Other expenses	3,829	4,687
Total General, Administrative and Other	$37,850	$45,928

13. EARNINGS (LOSS) PER CLASS A SHARE

Basic earnings (loss) per Class A Share is computed by dividing the net income (loss) attributable to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period.

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For the three months ended March 31, 2018 and 2017 the Company included 1,841,321 and 1,326,320 RSUs respectively, that have vested but have not been settled in Class A Shares in the weighted-average Class A Shares outstanding used to calculate basic and diluted earnings (loss) per Class A Share.
The Company did not include the Group P Units or PSUs in the calculations of dilutive earnings (loss) per Class A Share, as the applicable market performance conditions have not yet been met as of March 31, 2018.
The following tables present the computation of basic and diluted earnings (loss) per Class A Share:

Three Months Ended March 31, 2018	Net Income Attributable to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Earnings Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$3,490	192,230,917	$ 0.02	
Effect of dilutive securities:				
Group A Units	4,776	264,556,145		—
RSUs	—	—		34,757,146
Diluted	$8,266	456,787,062	$ 0.02	

Three Months Ended March 31, 2017	Net Loss Attributable to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$(7,164)	186,226,675	$(0.04)	
Effect of dilutive securities:				
Group A Units	—	—		287,004,764
RSUs	—	—		19,730,352
Diluted	$(7,164)	186,226,675	$(0.04)	

14. RELATED PARTY TRANSACTIONS

Due from Related Parties

Amounts due from related parties relate primarily to amounts due from the funds for expenses paid on their behalf. These amounts are reimbursed to the Company on an ongoing basis.

Due to Related Parties

Amounts due to related parties relate primarily to future payments owed to the Company's executive managing directors under the tax receivable agreement, as discussed further in Note 15. The Company made no payments under the tax receivable agreement in the three months ended March 31, 2018 and 2017, respectively.

The Company earns substantially all of its management fees and incentive income from the funds, which are considered related parties as the Company manages the operations of and makes investment decisions for these funds.

Management Fees and Incentive Income Earned from Related Parties and Waived Fees

As of March 31, 2018 and 2017, respectively, approximately $2.6 billion and $2.5 billion of the Company’s assets under management represented investments by the Company, its executive managing directors, employees and certain other related

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parties in the Company's funds. As of March 31, 2018 and 2017, approximately 74% and 65%, of these affiliated assets under management were not charged management fees and were not subject to an incentive income calculation.
The following table presents management fees and incentive income charged on investments held by related parties before the impact of eliminations related to the consolidated funds:

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Fees charged on investments held by related parties:		
Management fees	$2,082	$2,691
Incentive income	$1,264	$1,878

Corporate Aircraft
The Company's corporate aircraft were used for business purposes. From time to time, certain executive managing directors used the aircraft for personal use. For the three months ended March 31, 2017 the Company charged $291 thousand, for personal use of the aircraft by certain executive managing directors. Company sold its aircraft during the year ended December 31, 2017.

15. COMMITMENTS AND CONTINGENCIES

Tax Receivable Agreement
The purchase of Group A Units from the executive managing directors and the Ziffs with the proceeds from the 2007 Offerings, and subsequent taxable exchanges by them of Partner Equity Units for Class A Shares on a one-for-one basis (or, at the Company's option, a cash equivalent), resulted, and, in the case of future exchanges, are anticipated to result, in an increase in the tax basis of the tangible and intangible assets of the Oz Operating Group that would not otherwise have been available. As a result, the Company expects that its future tax liability will be reduced. Pursuant to the tax receivable agreement entered into among the Company, the executive managing directors and the Ziffs, the Company has agreed to pay to the executive managing directors and the Ziffs 85% of the amount of tax savings, if any, actually realized by the Company.
The Company recorded its initial estimate of future payments under the tax receivable agreement as a decrease to paid-in capital and an increase in amounts due to related parties in the consolidated financial statements. Subsequent adjustments to the liability for future payments under the tax receivable agreement related to changes in estimated future tax rates or state income tax apportionment are recognized through current period earnings in the consolidated statements of comprehensive income (loss).
In connection with the departure of certain former executive managing directors since the IPO, the right to receive payments under the tax receivable agreement by those former executive managing directors was contributed to the Oz Operating Group. As a result, the Company expects to pay to the remaining executive managing directors and the Ziffs approximately 78% (from 85% at the time of the IPO) of the amount of cash savings, if any, in federal, state and local income taxes in the United States that the Company actually realizes as a result of the increases in tax basis.
The estimate of the timing and the amount of future payments under the tax receivable agreement involves several assumptions that do not account for the significant uncertainties associated with these potential payments, including an assumption that Oz Corp will have sufficient taxable income in the relevant tax years to utilize the tax benefits that would give rise to an obligation to make payments. The actual timing and amount of any actual payments under the tax receivable agreement will vary based upon these and a number of other factors. As of March 31, 2018, the

estimated future payment under the tax receivable agreement was $280.0 million, which is recorded in due to related parties on the consolidated balance sheets.

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Lease Obligations

The Company has non-cancelable operating leases for its headquarters in New York expiring in 2029 and various other operating leases for its offices in London, Hong Kong, Mumbai, Beijing, Shanghai, Houston and other locations, expiring on various dates through 2024. The Company recognizes expense related to its operating leases on a straight-line basis over the lease term taking into account any rent holiday periods. The related lease commitments have not changed materially since December 31, 2017.

Litigation

From time to time, the Company is involved in litigation and claims incidental to the conduct of the Company's business. The Company is also subject to extensive scrutiny by regulatory agencies globally that have, or may in the future have, regulatory authority over the Company and its business activities. This has resulted, or may in the future result, in regulatory agency investigations, litigation and subpoenas and costs related to each.

On May 5, 2014, a purported class of shareholders filed a lawsuit against the Company in the U.S. District Court for the Southern District of New York (Menaldi v. Och-Ziff Capital Mgmt., et al.). The amended complaint asserted claims under the Securities Exchange Act of 1934 on behalf of all purchasers of Company securities from February 9, 2012 to August 22, 2014. Daniel Och, Joel Frank and Michael Cohen were also named as defendants. On March 16, 2015, all defendants moved to dismiss the amended complaint. On February 17, 2016, the court entered an order granting in part the motion to dismiss filed by the Company and Messrs. Och and Frank and dismissing Mr. Cohen from the action. On March 23, 2016, the Company and Messrs. Och and Frank filed their answer to the amended complaint. On November 18, 2016, plaintiffs filed a second amended complaint asserting claims under the Securities Exchange Act of 1934 on behalf of all purchasers of Company securities from November 18, 2011 to April 11, 2016. The second amended complaint alleges, among other things, breaches of certain disclosure obligations with respect to matters that were under investigation by the SEC and the DOJ, and names the Company and Messrs. Och, Frank and Cohen as defendants. On November 23, 2016, Mr. Cohen objected to being named as a defendant in the second amended complaint on procedural grounds. On December 21, 2016, the court directed the plaintiffs to file a motion for permission to renew their claims against Mr. Cohen. Plaintiffs filed their motion on January 7, 2017. On January 11, 2017, the Company filed a motion to dismiss those portions of the second amended complaint that seek to revive dismissed claims or assert new claims against it, and Messrs. Och and Frank filed motions to dismiss as well. On September 29, 2017, the Court granted the Company's motion to dismiss in its entirety and dismissed Plaintiffs' revived claims and new claims against the Company and Messrs. Och and Frank. The Court also dismissed Mr. Cohen from the case entirely and denied Plaintiffs' request to file a further amended complaint. The Company believes the pending case is without merit and intends to defend it vigorously. The Company is unable to reasonably estimate the amount of loss or range of loss possible for this case.

In addition, in U.S. v. Oz Africa Management GP, LLC, Cr. No. 16-515 (NGG) (EDNY), certain former shareholders of a Canadian mining company filed a letter with the court stating they plan to seek restitution at the sentencing hearing for Oz Africa Management GP, LLC. The Company believes the threatened claim is without merit and intends to defend it vigorously.

Investment Commitments

From time to time, certain funds consolidated by the Company may have commitments to fund investments. These commitments are funded through contributions from investors in those funds, including the Company if it is an investor in the relevant fund.

The Company has unfunded capital commitments of $30.5 million to certain funds it manages. It expects to fund these commitments over the next three years. In addition, certain related parties of the Company, collectively, have unfunded capital commitments to funds managed by the Company of up to $67.2 million. The Company has guaranteed these commitments in the event any executive managing director fails to fund any portion when called by the fund. The Company has historically not funded any of these commitments and does not expect to in the future, as these commitments are expected to be funded by the Company's executive managing directors individually.

Other Contingencies

The Company may purchase an asset and make an additional payment in order to resolve a potential commercial dispute. The Company has not accrued any liability in connection with the dispute and estimates that the possible loss may range from zero to $25.0 million.

In the normal course of business, the Company enters into contracts that provide a variety of general indemnifications. Such contracts include those with certain service providers, brokers and trading counterparties. Any exposure to the Company under these arrangements could involve future claims that may be made against the Company. Currently, no such claims exist or are expected to arise and, accordingly, the Company has not accrued any liability in connection with such indemnifications.

16. SEGMENT INFORMATION

The Company's operating segments are the Oz Funds segment and the Company's real estate business. The Oz Funds segment, which provides asset management services to the Company's multi-strategy funds, dedicated credit funds and other alternative investment vehicles, is currently the Company's only reportable operating segment under GAAP. The Company's real estate business, which provides asset management services to its real estate funds, is included in the Other Operations, as it does not meet the threshold of a reportable operating segment under GAAP.

In addition to analyzing the Company's results on a GAAP basis, management also reviews its results on an "Economic Income" basis. Economic Income excludes the adjustments described below that are required for presentation of the Company's results on a GAAP basis, but that management does not consider when evaluating operating performance in any given period. Management uses Economic Income as the basis on which it evaluates the Company's financial performance and makes resource allocation and other operating decisions. Management considers it important that investors review the same operating information that it uses.

Economic Income is a measure of pre-tax operating performance that excludes the following from the Company's results on a GAAP basis:

- Income allocations to the Company's executive managing directors on their direct interests in the Oz Operating Group. Management reviews operating performance at the Oz Operating Group level, where the Company's operations are performed, prior to making any income allocations.
- Equity-based compensation expenses, depreciation and amortization expenses, changes in the tax receivable agreement liability, and gains and losses on fixed assets and investments in funds, as management does not consider these items to be reflective of operating performance. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement.
- Amounts related to the consolidated funds, including the related eliminations of management fees and incentive income, as management reviews the total amount of management fees and incentive income earned in relation to total assets under management and fund performance.

In addition, expenses related to incentive income profit-sharing arrangements are generally recognized at the same time the related incentive income revenue is recognized, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund. Further, deferred cash compensation is expensed in full in the year granted for Economic Income, rather than over the service period for GAAP.

Finally, management reviews Economic Income revenues by presenting management fees net of recurring placement and related service fees, rather than considering these fees an expense, and by excluding the impact of eliminations related to the consolidated funds.

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Management does not regularly review assets by operating segment in assessing operating segment performance and the allocation of company resources; therefore, the Company does not present total assets by operating segment. Substantially all interest income and all interest expense related to outstanding indebtedness is allocated to the Oz Funds segment.

Oz Funds Segment Results

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(dollars in thousands)	
Oz Funds Segment:		
Economic Income Revenues	$113,647	$126,724
Economic Income	$51,275	$43,446

Reconciliation of Oz Funds Segment Revenues to Consolidated Revenues

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(dollars in thousands)	
Total consolidated revenues	$128,410	$139,152
Adjustment to management fees(1)	(4,741)	(5,444)
Adjustment to other revenues(2)	(39)	—
Other Operations revenues	(9,399)	(6,489)
Income of consolidated funds	(584)	(495)
Economic Income Revenues - Oz Funds Segment	$113,647	$126,724

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(1) Adjustment to present management fees net of recurring placement and related service fees, as management considers these fees a reduction in management fees, not an expense. The impact of eliminations related to the consolidated funds is also removed.
(2) Adjustment to exclude realized gains on sale of fixed assets.

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Reconciliation of Oz Funds Segment Economic Income to Net Income (Loss) Attributable to Class A Shareholders

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Net Income (Loss) Attributable to Class A Shareholders—GAAP	$3,490	$(7,164)
Change in redemption value of Preferred Units	—	2,853
Net Income (Loss) Attributable to Och-Ziff Capital Management Group LLC—GAAP	$3,490	$(4,311)
Net income attributable to Group A Units	8,370	9,635
Equity-based compensation, net of RSUs settled in cash	21,895	18,478
Adjustment to recognize deferred cash compensation in the period of grant	12,783	(138)
Income taxes	3,012	12,056
Allocations to Group D Units	1,390	3,360
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	(162)	1,979
Depreciation, amortization and net gains and losses on fixed assets	2,372	4,212
Other adjustments	(408)	(873)
Other Operations	(1,467)	(952)
Economic Income - Oz Funds Segment	$51,275	$43,446

17. SUBSEQUENT EVENTS

Dividend

On May 2, 2018, the Company announced a cash dividend of $0.02 per Class A Share. The dividend is payable on May 21, 2018, to holders of record as of the close of business on May 14, 2018.

New Senior Credit Agreement

On April 10, 2018 (“the Closing Date”), OZ Management LP, as borrower, (the “Borrower”), and certain other subsidiaries, as guarantors, entered into a senior secured credit and guaranty agreement (the “Senior Credit Agreement”) consisting of (i) a $250 million term loan facility (the “Term Loan Facility”) and (ii) a $100 million revolving credit facility (the “Revolving Facility”). The Company borrowed the full amount available under the Term Loan Facility on the Closing Date. On May 1, 2018, the Company repaid $50.0 million of the amounts outstanding under the Term Loan Facility.

The Term Loan Facility initially matures five years after the Closing Date. The Revolving Facility initially matures four years and six months after the Closing Date. The maturity date of both the Term Loan Facility and the Revolving Facility may be extended pursuant to the terms of the Senior Credit Agreement. The proceeds of the loans under the Term Loan Facility together with cash on hand will be used to redeem the Senior Notes (as described above). The Company intends to use the proceeds of the Revolving Facility for working capital and general corporate purposes. As of the time of this filing, the Revolving Facility is undrawn.

Loans under the Term Loan Facility will bear interest at a per annum rate equal to, at the Company’s option, one, three or six month (or (i) twelve month with the consent of each lender or (ii) with respect to the loans under the Term Loan Facility on the Closing Date, any period of less than three months as may be agreed by the administrative agent and the Company) LIBOR plus a margin of 4.75%, or a base rate plus a margin of 3.75%. Loans under the Revolving Facility will bear interest at a per annum rate equal to, at the Company’s option, one, three or six month (or twelve months with the consent of each lender) LIBOR plus a margin of 1.75% to 2.75%, or a base rate plus a margin of

0.75% to 1.75%.

The Company is required to pay an undrawn commitment fee at a rate per annum equal to 0.20% to 0.75% of the undrawn portion of the commitments under the Revolving Facility computed on a daily basis. The LIBOR and base rate margins under the Revolving Facility, as well as the amount of the commitment fee owed by the Company under the Revolving Facility, are based on the Company’s corporate rating at the time.

The obligations under the Senior Credit Agreement are guaranteed by the Oz Operating Partnerships and are secured by a lien on substantially all of the Oz Operating Partnerships’ assets, subject to certain exclusions.

The Senior Credit Agreement contains two financial maintenance covenants. The first financial maintenance covenant prohibits the Company’s total fee-paying assets under management as of the last day of any fiscal quarter to be less than $20 billion, and the second prohibits the total net leverage ratio as of the last day of any fiscal quarter, beginning with the fiscal quarter ending on March 31, 2018, to exceed (i) 3.00 to 1.00, or (ii) following the third anniversary of the Closing Date, 2.50 to 1.00.

The Senior Credit Agreement contains customary events of default. If an event of default under the Senior Credit Agreement occurs and is continuing, then, at the request (or with the consent) of the lenders holding a majority of the commitments and loans under the Senior Credit Agreement, upon notice by the administrative agent to the Borrower, the obligations under the Senior Credit Agreement shall become immediately due and payable. In addition, if the Borrower or any of its material subsidiaries becomes the subject of voluntary or involuntary proceedings under any bankruptcy, insolvency or similar law, then any outstanding obligations under the Senior Credit Agreement will automatically become immediately due and payable.

Termination of the Revolving Credit Agreement

On the Closing Date, in connection with entry into the Senior Credit Agreement as described above, the Borrower terminated all commitments and repaid all obligations under the Borrower’s existing credit and guaranty agreement, dated as of November 20, 2014 (as amended, the “Revolving Credit Agreement”). On the Closing Date, upon the termination of all commitments and repayment of all obligations, all of the guarantees of the obligations under the Revolving Credit Agreement were released, and the Revolving Credit Agreement was terminated. No early termination penalties were incurred by the Borrower in connection with the termination of the Revolving Credit Agreement.

Satisfaction and Discharge of 4.500% Senior Notes due 2019

On April 5, 2018, Och-Ziff Finance Co. LLC, a wholly owned subsidiary of Oz Management (“Oz Finance”), delivered a conditional notice of redemption (the “Notice”) to holders of all $400.0 million in aggregate principal amount of its outstanding 4.500% Senior Notes due 2019 (the “Senior Notes”). The Senior Notes had been issued under the First Supplemental Indenture, dated as of November 20, 2014, to the Indenture, dated as of November 20, 2014 (as so supplemented, the “Indenture”), among Oz Finance, as issuer, the guarantors named therein and Wilmington Trust, National Association, as trustee (the “Trustee”). Upon completion of the debt financing under the Senior Credit Agreement, as set forth above, the conditions to the redemption under the Senior Notice were satisfied.

On April 10, 2018, Oz Finance deposited with the Trustee an amount sufficient to pay and discharge the entire indebtedness under the Senior Notes and the Indenture was satisfied and discharged with respect to the Senior Notes (other than with respect to those provisions of the Indenture that expressly survive satisfaction and discharge). The Senior Notes will be redeemed on May 5, 2018, in accordance with the Indenture.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in "Part II—Item 1A. Risk Factors" of this report. Actual results may differ materially from those contained in any forward-looking statements. This MD&A should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this quarterly report. An investment in our Class A Shares is not an investment in any of our funds.

Overview

Effects of Revenue Recognition Standard

In the first quarter of 2018, we adopted new revenue recognition accounting guidance, which resulted in the acceleration of $128.3 million of previously accrued but unrecognized incentive income through an adjustment to opening equity. As it relates to Economic Income, amounts related to the Company's real estate funds were partially offset by related compensation and benefits expense of $43.7 million on an Economic Income basis. As it relates to GAAP, the adoption of the accounting guidance did not impact the recognition of compensation and benefits as such amounts have already been recognized as expense.

Overview of Our Financial Results

We reported GAAP net income attributable to Class A Shareholders of $3.5 million for the first quarter of 2018, compared to net loss of $7.2 million for the first quarter of 2017. The year-over-year improvement was primarily due to lower operating expenses, lower income tax expense resulting from a change in the federal statutory tax rate and higher interest income earned on investments in CLOs. These improvements were partially offset by lower management fees.

We reported Economic Income of $52.7 million for the first quarter of 2018, compared to income of $44.4 million for the first quarter of 2017. The increase in income was mainly driven by lower operating expenses, partially offset by lower management fees.

Economic Income is a non-GAAP measure. For additional information regarding non-GAAP measures, as well as for a discussion of the drivers of the year over year change in Economic Income, please see "—Economic Income Analysis."

Overview of Assets Under Management and Fund Performance

Assets under management totaled $32.8 billion as of March 31, 2018. Longer-dated assets under management, which are those subject to initial commitment periods of three years or longer, were $17.9 billion, comprising 54% of our total assets under management as of March 31, 2018. Assets under management in our dedicated credit, real estate and other strategy-specific funds were $19.5 billion, comprising 59% of assets under management as of March 31, 2018.

Assets under management in our multi-strategy funds totaled $13.3 billion as of March 31, 2018, decreasing $4.4 billion, or 25%, year-over-year. This change was driven by net capital outflows of $5.6 billion, primarily in the Oz Master Fund, our largest multi-strategy fund, partially offset by performance-related appreciation of $1.4 billion. Also contributing to the decrease was $104.0 million of distributions to investors in certain smaller funds that we have decided to close.

Oz Master Fund generated a gross return of 3.0% and a net return of 2.1% year-to-date through March 31, 2018. Oz Master Fund's return was broad based, with positive performance for the quarter in all of its major strategies.

Please see "—Assets Under Management and Fund Performance—Multi-Strategy Funds" for additional information regarding the returns of the Oz Master Fund.

Assets under management in our dedicated credit products totaled $16.6 billion as of March 31, 2018, increasing $3.3 billion, or 25%, year-over-year. This change was driven by capital net inflows of $2.9 billion and performance-related appreciation of $537.7 million, partially offset by $154.2 million of distributions and other reductions in our closed-end opportunistic credit funds.

Assets under management in our opportunistic credit funds totaled $5.4 billion as of March 31, 2018, increasing $140.1 million, or 3%, year-over-year. Oz Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 4.2% and a net return of 2.8% year-to-date through March 31, 2018. Performance was broad-based with gains across both the corporate and structured credit strategies. Assets under management for the fund were $1.7 billion as of March 31, 2018.

Assets under management in Institutional Credit Strategies totaled $11.2 billion as of March 31, 2018, increasing $3.2 billion, or 39%, year-over-year. The increase was primarily driven by new CLOs.

Assets under management in our real estate funds totaled $2.5 billion as of March 31, 2018, increasing $239.7 million, or 11%, year-over-year. Since inception through March 31, 2018, the gross internal rate of return ("IRR") was 33.1% and 21.6% net for Och-Ziff Real Estate Fund II (for which the investment period ended in 2014), and 25.1% gross and 15.8% net for Och-Ziff Real Estate Fund I (for which the investment period ended in 2010).

Assets Under Management and Fund Performance

Our financial results are primarily driven by the combination of our assets under management and the investment performance of our funds. Both of these factors directly affect the revenues we earn from management fees and incentive income. Growth in assets under management due to capital placed with us by investors in our funds and positive investment performance of our funds drive growth in our revenues and earnings. Conversely, poor investment performance slows our growth by decreasing our assets under management and increasing the potential for redemptions from our funds, which would have a negative effect on our revenues and earnings.

We typically accept capital from new and existing investors in our funds on a monthly basis on the first day of each month. Investors in our multi-strategy and our open-end opportunistic credit funds (other than with respect to capital invested in Special Investments) typically have the right to redeem their interests in a fund following an initial lock-up period of one to three years. Following the expiration of these lock-up periods, subject to certain limitations, investors may redeem capital generally on a quarterly or annual basis upon giving 30 to 90 days' prior written notice. However, upon the payment of a redemption fee to the applicable fund and upon giving 30 days' prior written notice, certain investors may redeem capital during the lock-up period. The lock-up requirements for our funds may generally be waived or modified at the sole discretion of each fund's general partner or board of directors, as applicable.

With respect to investors with quarterly redemption rights, requests for redemptions submitted during a quarter generally reduce assets under management on the first day of the following quarter. Accordingly, quarterly redemptions generally will have no impact on management fees during the quarter in which they are submitted. Instead, these redemptions will reduce management fees in the following quarter. With respect to investors with annual redemption rights, redemptions paid prior to the end of a quarter impact assets under management in the quarter in which they are paid, and therefore impact management fees for that quarter.

Investors in our closed-end credit funds, CLOs, real estate and certain other funds are not able to redeem their investments. In those funds, investors generally make a commitment that is funded over an investment period (or at launch for our CLOs). Upon the expiration of the investment period, the investments are then sold or realized over time, and distributions are made to the investors in the fund.

In a declining market, during periods when the hedge fund industry generally experiences outflows, or in response to specific company events, we could experience increased redemptions and a consequent reduction in our assets under management. Over the past couple of years, our assets under management have declined and this trend may continue to some extent for some period of time in light of the 2016 settlements and the related inability to rely on Regulation D. However, throughout the latter part of 2017 and into early 2018, net outflows from our multi-strategy funds began to normalize and were partially offset by growth in our CLOs business, as well as positive fund performance. We believe that strong fund performance should translate to inflows, although we cannot pinpoint the timing.

Information with respect to our assets under management throughout this report, including the tables set forth below, includes investments by us, our executive managing directors, employees and certain other related parties. As of March 31, 2018,

approximately 8% of our assets under management represented investments by us, our executive managing directors, employees and certain other related parties in our funds. As of that date, approximately 74% of these affiliated assets under management are not charged management fees and are not subject to an incentive income calculation. Additionally, to the extent that a fund is an investor in another fund, we waive or rebate a corresponding portion of the management fees charged to the fund.

As further discussed below in "—Understanding Our Results—Revenues," we generally calculate management fees based on assets under management as of the beginning of each quarter. The assets under management in the tables below are presented net of management fees and incentive income as of the end of the period. Accordingly, the assets under management presented in the tables below are not the amounts used to calculate management fees for the respective periods.

Summary of Changes in Assets Under Management

The tables below present the changes to our assets under management for the respective periods based on the type of funds or investment vehicles we manage.

	Three Months Ended March 31, 2018				
	December 31, 2017	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	March 31, 2018
	(dollars in thousands)				
Multi-strategy funds	$13,695,040	$(551,670)	$(103,968)	$ 285,828	$13,325,230
Credit					
Opportunistic credit funds	5,513,618	(98,840)	(115,985)	126,198	5,424,991
Institutional Credit Strategies	10,136,991	1,031,630	—	7,485	11,176,106
Real estate funds	2,495,190	—	(23,676)	(16)	2,471,498
Other	587,723	(570)	(154,171)	5,752	438,734
Total	$32,428,562	$380,550	$(397,800)	$ 425,247	$32,836,559

	Three Months Ended March 31, 2017				
	December 31, 2016	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	March 31, 2017
	(dollars in thousands)				
Multi-strategy funds	$21,084,548	$(4,159,118)	$ —	$ 777,041	$17,702,471
Credit					
Opportunistic credit funds	5,376,080	(211,920)	(19,769)	140,457	5,284,848
Institutional Credit Strategies	8,019,510	3,453	—	(8,602)	8,014,361
Real estate funds	2,213,364	34,212	(16,432)	642	2,231,786
Other	1,186,801	(495,048)	(30,016)	22,631	684,368
Total	$37,880,303	$(4,828,421)	$ (66,217)	$ 932,169	$33,917,834

In the three months ended March 31, 2018, our funds experienced performance-related appreciation of $425.2 million and net inflows of $380.6 million. The net inflows were comprised of $1.6 billion of gross inflows, primarily due to launches of new CLOs, and $1.2 billion of gross outflows due to redemptions. We also had $397.8 million in distributions and other reductions related to closed-end funds that are in the process of realizing investments and making distributions to investors in those funds, as well as to certain smaller funds that we have decided to close. Our outflows in the first quarter of 2018 started to normalize. In the first quarter of 2018, excluding CLOs, our largest source of gross inflows was from corporate, institutional and related parties, while related parties and pensions were our largest sources of gross outflows.

In the first quarter of 2017, our funds experienced performance-related appreciation of $932.2 million and net outflows of $4.8 billion, which was comprised of $149.5 million of gross inflows and $5.0 billion of gross outflows due to redemptions. We also had $66.2 million in distributions and other reductions related to investors in our other funds, closed-end opportunistic credit and real estate funds. We experienced elevated redemptions and reduced inflows in our multi-strategy funds during the first quarter of 2017 as a result of the settlements expense, the related inability to rely on Regulation D, and the overall redemption cycle currently affecting the hedge fund industry. In the first quarter of 2017, excluding CLOs, related parties and corporate, institutional and other investors were the largest sources of our gross inflows, while pensions and private banks were our largest sources of gross outflows.

Weighted-Average Assets Under Management and Average Management Fee Rates

The table below presents our weighted-average assets under management and average management fee rates. Weighted-average assets under management exclude the impact of first quarter investment performance for the periods presented, as these amounts generally do not impact management fees calculated for those periods. The average management fee rates presented below take into account the effect of non-fee paying assets under management. Please see the respective sections below for average management fee rates by fund type.

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Weighted-average assets under management	$32,347,863	$33,163,162
Average management fee rates	0.85 %	0.99 %

The decline in our average management fee rate for the periods presented occurred primarily because of a change in the mix of products that comprise our assets under management. Our average management fee will vary from period to period based on the mix of products that comprise our assets under management.

Fund Performance Information

The tables below present performance information for the funds we manage. All of our funds are managed by the Oz Funds segment with the exception of our real estate funds, which are managed by the real estate management business included in Other Operations.

The performance information presented in this report is not indicative of the performance of our Class A Shares and is not necessarily indicative of the future results of any particular fund, including the accrued unrecognized amounts of incentive income. An investment in our Class A Shares is not an investment in any of our funds. There can be no assurance that any of our existing or future funds will achieve similar results. The timing and amount of incentive income generated from our funds are inherently uncertain. Incentive income is a function of investment performance and realizations of investments, which vary period-to-period based on market conditions and other factors. We cannot predict when, or if, any realization of investments will occur. Incentive income recognized for any particular period is not a reliable indicator of incentive income that may be earned in subsequent periods.

The return information presented in this report represents, where applicable, the composite performance of all feeder funds that comprise each of the master funds presented. Gross return information is generally calculated using the total return of all feeder funds, net of all fees and expenses except management fees and incentive income of such feeder funds and master funds and the returns of each feeder fund include the reinvestment of all dividends and other income. Net return information is generally calculated as the gross returns less management fees and incentive income (except incentive income on unrealized gains attributable to Special Investments in certain funds that could reduce returns on these investments at the time of realization). Return information also includes realized and unrealized gains and losses attributable to Special Investments and initial public offering investments that are not allocated to all investors in the feeder funds. Investors that were not allocated Special Investments and initial public offering investments may experience materially different returns.

Multi-Strategy Funds

The table below presents assets under management and investment performance for our multi-strategy funds. Assets under management are generally based on the net asset value of these products. Management fees generally range from 0.97% to

2.50% of assets under management. For the first quarter of 2018, our multi-strategy funds had an average management fee rate of 1.24%.

We generally crystallize incentive income from the majority of our multi-strategy funds on an annual basis. Incentive income is generally equal to 20% of the realized and unrealized profits attributable to each investor. A portion of the assets under management in each of the Oz Master Fund and our other multi-strategy funds is subject to initial commitment periods of three years, and for certain of these assets, we only earn incentive income once profits attributable to an investor exceed a preferential return, or “hurdle rate,” which is generally equal to the 3-month T-bill or LIBOR rate for our multi-strategy funds. Once the investment performance has exceeded the hurdle rate for these assets, we may receive a “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these assets.

	Assets Under Management as of March 31,		Returns for the Three Months Ended March 31,				Annualized Returns Since Inception Through March 31, 2018	
			2018		2017			
	2018	2017	Gross	Net	Gross	Net	Gross	Net
Fund	(dollars in thousands)							
Oz Master Fund[1]	$11,241,001	$14,712,330	3.0 %	2.1 %	5.5 %	4.1 %	16.7%[1]	11.7%[1]
Oz Asia Master Fund	573,852	791,304	0.2 %	-0.3 %	7.4 %	6.4 %	10.3%	6.2 %
Oz Enhanced Master Fund	642,820	654,120	5.1 %	3.8 %	8.7 %	6.6 %	15.4%	10.6%
Other funds	867,557	1,544,717	n/m	n/m	n/m	n/m	n/m	n/m
	$13,325,230	$17,702,471						

n/m not meaningful

(1) The annualized returns since inception are those of the Oz Multi-Strategy Composite, which represents the composite performance of all accounts that were managed in accordance with our broad multi-strategy mandate that were not subject to portfolio investment restrictions or other factors that limited our investment discretion since inception on April 1, 1994. Performance is calculated using the total return of all such accounts net of all investment fees and expenses of such accounts, except incentive income on unrealized gains attributable to Special Investments that could reduce returns in these investments at the time of realization, and the returns include the reinvestment of all dividends and other income. The performance calculation for the Oz Master Fund excludes realized and unrealized gains and losses attributable to currency hedging specific to certain investors investing in Oz Master Fund in currencies other than the U.S. Dollar. For the period from April 1, 1994 through December 31, 1997, the returns are gross of certain overhead expenses that were reimbursed by the accounts. Such reimbursement arrangements were terminated at the inception of the Oz Master Fund on January 1, 1998. The size of the accounts comprising the composite during the time period shown vary materially. Such differences impacted our investment decisions and the diversity of the investment strategies followed. Furthermore, the composition of the investment strategies we follow is subject to our discretion, has varied materially since inception and is expected to vary materially in the future. As of March 31, 2018, the gross and net annualized returns since the Oz Master Fund’s inception on January 1, 1998 were 13.1% and 8.9%, respectively.

The $4.4 billion, or 25%, year-over-year decrease in assets under management in our multi-strategy funds was primarily due to capital net outflows of $5.6 billion, primarily from the Oz Master Fund, our largest multi-strategy fund, partially offset by performance-related appreciation of $1.4 billion. Also contributing to the decrease was $104.0 million of distributions to investors in certain smaller funds that we have decided to close. In 2018, the largest sources of gross outflows from our multi-strategy funds were attributable to related parties and private banks.

For the first quarter of 2018, the Oz Master Fund generated a gross return of 3.0% and a net return of 2.1%. Oz Master Fund's return was broad based, with positive performance for the quarter in all of its major strategies.

For the first quarter of 2017, the OZ Master Fund generated a gross return of 5.5% and a net return of 4.1%. These returns were driven by the fund's long/short equity special situations, merger arbitrage, credit-related and convertible and derivative arbitrage strategies.

Credit

	Assets Under Management as of March 31,	
	2018	2017
	(dollars in thousands)	
Opportunistic credit funds	$5,424,991	$5,284,848
Institutional Credit Strategies	11,176,106	8,014,361
	$16,601,097	$13,299,209

Opportunistic Credit Funds

Our opportunistic credit funds seek to generate risk-adjusted returns by capturing value in mispriced investments across disrupted, dislocated and distressed corporate, structured and private credit markets globally.

Certain of our opportunistic credit funds are open-end and allow for contributions and redemptions (subject to initial lock-up and notice periods) on a periodic basis similar to our multi-strategy funds. Our remaining opportunistic credit funds are closed-end, whereby investors make a commitment that is funded over an investment period. Upon the expiration of an investment period, the investments are then sold or realized over a period of time, and distributions are made to the investors in the fund.

Assets under management for our opportunistic credit funds are generally based on the net asset value of those funds plus any unfunded commitments. Management fees for our opportunistic credit funds generally range from 0.75% to 1.75% of the net asset value of these funds. For the first quarter of 2018, our opportunistic credit funds had an average management fee rate of 0.84%.

The table below presents assets under management and investment performance information for certain of our opportunistic credit funds. Incentive income related to these funds (excluding the closed-end opportunistic fund, which is explained further below) is generally equal to 20% of realized and unrealized profits attributable to each investor, and a portion of these assets under management is subject to hurdle rates, which are generally 5% to 8% for our open-end opportunistic credit funds. Once the cumulative investment performance has exceeded the hurdle rate, we may receive a "catch-up" allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds. The measurement periods for these assets under management generally range from one to five years.

	Assets Under Management as of March 31,		Returns for the Three Months Ended March 31,				Annualized Returns Since Inception Through March 31, 2018	
	2018	2017	2018		2017			
			Gross	Net	Gross	Net	Gross	Net
Fund	(dollars in thousands)							
Oz Credit Opportunities Master Fund	$1,723,981	$1,698,229	4.2 %	2.8 %	4.6 %	3.2 %	17.4%	12.7%
Customized Credit Focused Platform	3,031,073	2,807,683	2.9 %	2.3 %	1.6 %	1.2 %	19.2%	14.5%
Closed-end opportunistic credit funds	220,228	346,779	See below for return information on our closed-end opportunistic credit funds.					
Other funds	449,709	432,157	n/m	n/m	n/m	n/m	n/m	n/m
	$5,424,991	$5,284,848						

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n/m not meaningful

Assets under management in our opportunistic credit funds increased by $140.1 million, year-over-year. This change was driven by $518.4 million of performance-related appreciation, partially offset by $224.0 million of net outflows and $154.2 million of distributions in the Company's closed-end opportunistic credit funds.

For the first quarter of 2018, the Oz Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 4.2% and a net return of 2.8%. Performance was broad-based with gains across both the corporate and structured credit strategies.
For the first quarter of 2017, the OZ Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 4.6% and a net return of 3.2%. These returns were driven in part by realizations in corporate credit, structured credit and successful resolutions in various distressed situations.
The table below presents assets under management, investment performance and other information for our closed-end opportunistic credit funds. Our closed-end opportunistic credit funds follow a European-style waterfall, whereby incentive income may be paid to us only after a fund investor receives distributions in excess of their total contributed capital and a preferential return, which is generally 6%. Incentive income related to these funds is generally equal to 20% of the cumulative realized profits in excess of the preferential return attributable to each investor over the life of the fund. Once the investment performance has exceeded the preferential return, we may receive a “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds.

	Assets Under Management as of March 31,		Inception to Date as of March 31, 2018				
					IRR		
	2018	2017	Total Commitments	Total Invested Capital(1)	Gross(2)	Net(3)	Gross MOIC(4)
Fund (Investment Period)	(dollars in thousands)						
Oz European Credit Opportunities Fund (2012-2015)(5)	$47,137	$68,272	$459,600	$305,487	16.5%	12.5%	1.5x
Oz Structured Products Domestic Fund II (2011-2014)(5)	79,729	112,238	326,850	326,850	20.2%	15.9%	2.1x
Oz Structured Products Offshore Fund II (2011-2014)(5)	81,920	110,596	304,531	304,531	17.7%	13.8%	1.9x
Oz Structured Products Offshore Fund I (2010-2013)(5)	5,906	5,258	155,098	155,098	23.9%	19.2%	2.1x
Oz Structured Products Domestic Fund I (2010-2013)(5)	5,358	4,698	99,986	99,986	22.8%	18.2%	2.0x
Other funds	178	45,717	168,250	168,250	n/m	n/m	n/m
	$220,228	$346,779	$1,514,315	$1,360,202			

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n/m not meaningful

(1) Represents funded capital commitments net of recallable distributions to investors.

(2) Gross IRR for our closed-end opportunistic credit funds represents the estimated, unaudited, annualized return based on the timing of cash inflows and outflows for the fund as of March 31, 2018, including the fair value of unrealized investments as of such date, together with any appreciation or depreciation from related hedging activity. Gross IRR does not include the effects of management fees or incentive income, which would reduce the return, and includes the reinvestment of all fund income.

(3) Net IRR is calculated as described in footnote (2), but is reduced by all management fees, as well as paid incentive and accrued incentive income that will be payable upon the distribution of each fund’s capital in accordance with the terms of the relevant fund. Accrued incentive income may be higher or lower at such time. The net IRR represents a composite rate of return for a fund and does not reflect the net IRR specific to any individual investor.

(4) Gross MOIC for our closed-end opportunistic credit funds is calculated by dividing the sum of the net asset value of the fund, accrued incentive income, life-to-date incentive income and management fees paid and any non-recallable distributions made from the fund by the invested capital.

(5) These funds have concluded their investment periods, and therefore we expect assets under management for these funds to decrease as investments are sold and the related proceeds are distributed to the investors in these funds.

Institutional Credit Strategies

Institutional Credit Strategies is our asset management platform that invests in performing credits, including leveraged loans, high-yield bonds, private credit/bespoke financing and investment grade credit via CLOs and other customized solutions for clients.

Assets under management for our CLOs are generally based on the par value of the collateral and cash held in the CLOs. However, assets under management are reduced for any investments in our CLOs held by our other funds in order to avoid double counting these assets. Management fees for the CLOs are generally range from 0.43% to 0.50% of assets under management. For the first quarter of 2018, our Institutional Credit Strategies products had an average management fee rate of 0.41%.

Incentive income from our CLOs is generally equal to 20% of the excess cash flows due to the holders of the subordinated notes issued by the CLOs, and is generally subject to a 12% hurdle rate. Because of the hurdle rate and structure of our CLOs, we do not expect to earn a meaningful amount of incentive income from these entities, and therefore no return information is presented for these vehicles. The OZLM CLOs presented below are our U.S. CLOs, whereas the OZLME CLO are our European CLOs.

	Initial Closing Date (Most Recent Refinance Date)	Deal Size	Assets Under Management as of March 31, 2018	2017
		(dollars in thousands)		
CLOs				
OZLM I	July 19, 2012 (July 24, 2017)	$523,550	$496,487	$497,432
OZLM II	November 1, 2012 (October 31, 2016)	560,100	508,455	509,369
OZLM III	February 20, 2013 (December 15, 2016)	653,250	608,049	609,470
OZLM IV	June 27, 2013 (September 15, 2017)	615,500	539,700	539,900
OZLM V	December 17, 2013 (March 16, 2017)	501,250	—	468,015
OZLM VI	April 16, 2014 (January 17,2017)	621,250	594,833	596,721
OZLM VII	June 26, 2014 (April 17, 2017)	824,750	792,305	795,840
OZLM VIII	September 9, 2014 (May 30, 2017)	622,250	594,514	596,892
OZLM IX	December 22, 2014 (March 2, 2017)	510,208	498,466	495,000
OZLM XI	March 12, 2015 (August 18, 2017)	541,532	515,451	490,609
OZLM XII	May 28, 2015	565,650	548,126	549,966
OZLM XIII	August 6, 2015	511,600	494,344	496,038
OZLM XIV	December 21, 2015	507,420	501,066	503,377
OZLM XV	December 20, 2016	409,250	395,663	396,489
OZLME I	December 15, 2016	430,490	489,818	426,009
OZLM XVI	June 8, 2017	410,250	400,689	—
OZLM XVII	August 3, 2017	512,000	497,707	—
OZLME II	September 14, 2017	494,708	488,048	—
OZLM XIX	November 21, 2017	610,800	599,644	—
OZLM XXI	January 26, 2018	510,600	500,620	—
OZLME III	January 31, 2018	509,118	491,386	—
OZLM XXII	February 22, 2018	509,200	466,905	—
		11,954,726	11,022,276	7,971,127
Other funds	n/a	n/a	153,830	43,234
		$11,954,726	$11,176,106	$8,014,361

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The year-over-year increase in assets under management was driven primarily by the closing of new CLOs.

Real Estate Funds

Our real estate funds generally make investments in commercial and residential real estate, including real property, multi-property portfolios, real estate-related joint ventures, real estate operating companies and other real estate-related assets.

Assets under management for our real estate funds are generally based on the amount of capital committed by our fund investors during the investment period and the amount of actual capital invested for periods following the investment period. However, assets under management are reduced for unfunded commitments by our executive managing directors that will be funded through transfers from other funds in order to avoid double counting these assets. Management fees for our real estate funds generally range from 0.75% to 1.50% of assets under management; however, management fees for Och-Ziff Real Estate Credit Fund I are based on invested capital. For the first quarter of 2018, our real estate funds had an average management fee rate of 0.78%.

The table below presents assets under management, investment performance and other information for our real estate funds. Our real estate funds generally follow an American-style waterfall, whereby incentive income may be paid to us after a fund investment is realized if a fund investor receives distributions in excess of the capital contributed for such investment, as well as a preferential return on such investment, which is generally 6% to 10%. Upon each subsequent realization, incentive income, which is generally 20% of realized profits, is recalculated based on the cumulative realized profits in excess of the preferential return attributable to each investor over the life of the fund. Once the investment performance has exceeded the hurdle rate, we may receive a “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the realized net profits attributable to investors in these funds.

Due to the recalculation of cumulative realized profits upon each realization, the fund may clawback incentive income previously paid to us. As a result, we record incentive income paid to us by the real estate funds as unearned revenue in our consolidated balance sheets until the criteria for revenue recognition has been met.

	Assets Under Management as of March 31,	
	2018	2017
Fund	(dollars in thousands)	
Och-Ziff Real Estate Fund I	$13,402	$14,179
Och-Ziff Real Estate Fund II	152,257	323,915
Och-Ziff Real Estate Fund III	1,461,547	1,457,963
Och-Ziff Real Estate Credit Fund I	697,647	286,449
Other funds	146,645	149,280
	$2,471,498	$2,231,786

	Inception to Date as of March 31, 2018									
		Total Investments					Realized/Partially Realized Investments(1)			
	Total Commitments	Invested Capital(2)	Total Value(3)	Gross IRR(4)	Net IRR(5)	Gross MOIC(6)	Invested Capital	Total Value	Gross IRR(4)	Gross MOIC(6)
Fund (Investment Period)	(dollars in thousands)									
Och-Ziff Real Estate Fund I(7) (2005-2010)	$408,081	$386,122	$814,974	25.1%	15.8%	2.1x	$372,720	$810,929	26.6%	2.2x
Och-Ziff Real Estate Fund II(7) (2011-2014)	839,508	762,588	1,474,210	33.1%	21.6%	1.9x	597,465	1,266,298	37.3%	2.1x
	1,500,000	848,486	1,248,949	33.0%	21.8%	1.5x	234,159	409,230	34.5%	1.7x

Och-Ziff Real Estate Fund III (2014-2019)										
Och-Ziff Real Estate Credit Fund I[8] (2015-2019)	736,225	123,081	146,196	n/m	n/m	n/m	48,771	58,309	n/m	n/m
Other funds	294,539	173,703	249,314	n/m	n/m	n/m	60,528	108,975	n/m	n/m
	$3,778,353	$2,293,980	$3,933,643				$1,313,643	$2,653,741		

	Unrealized Investments as of March 31, 2018		
	Invested Capital	Total Value	Gross MOIC(6)
Fund (Investment Period)	(dollars in thousands)		
Och-Ziff Real Estate Fund I (2005-2010)(7)	$13,402	$4,045	0.3x
Och-Ziff Real Estate Fund II (2011-2014)(7)	165,123	207,912	1.3x
Och-Ziff Real Estate Fund III (2014-2019)	614,327	839,719	1.4x
Och-Ziff Real Estate Credit Fund I (2015-2019)(8)	74,310	87,887	n/m
Other funds	113,175	140,339	n/m
	$980,337	$1,279,902	

n/m not meaningful

(1) An investment is considered partially realized when the total amount of proceeds received, including dividends, interest or other distributions of income and return of capital, represents at least 50% of invested capital.

(2) Invested capital represents total aggregate contributions made for investments by the fund.

(3) Total value represents the sum of realized distributions and the fair value of unrealized and partially realized investments as of March 31, 2018. Total value will be impacted (either positively or negatively) by future economic and other factors. Accordingly, the total value ultimately realized will likely be higher or lower than the amounts presented as of March 31, 2018.

(4) Gross IRR for our real estate funds represents the estimated, unaudited, annualized return based on the timing of cash inflows and outflows for the aggregated investments as of March 31, 2018, including the fair value of unrealized and partially realized investments as of such date, together with any unrealized appreciation or depreciation from related hedging activity. Gross IRR is not adjusted for estimated management fees, incentive income or other fees or expenses to be paid by the fund, which would reduce the return.

(5) Net IRR is calculated as described in footnote (4), but is reduced by all management fees and other fund-level fees and expenses not adjusted for in the calculation of gross IRR. Net IRR is further reduced by paid incentive and accrued incentive income that will be payable upon the distribution of each fund's capital in accordance with the terms of the relevant fund. Accrued incentive income may be higher or lower at such time. The net IRR represents a composite rate of return for a fund and does not reflect the net IRR specific to any individual investor.

(6) Gross MOIC for our real estate funds is calculated by dividing the value of a fund's investments by the invested capital, prior to adjustments for incentive income, management fees or other expenses to be paid by the fund.

(7) These funds have concluded their investment periods, and therefore we expect assets under management for these funds to decrease as investments are sold and the related proceeds are distributed to the investors in these funds.

(8) This fund has invested less than half of its committed capital; therefore, IRR and MOIC information is not presented, as it is not meaningful.

The $239.7 million, or 11%, increase year-over-year in assets under management in our real estate funds was driven primarily by additional commitments to Och-Ziff Real Estate Credit Fund I, which had its final closing during the second quarter of 2017, and which was partially offset by distributions, primarily related to Och-Ziff Real Estate Fund II. We continue to deploy capital in our real estate funds, while also realizing investments. In the first quarter of 2018, the real estate funds invested over $195 million and had full or partial realizations of two investments. In total, we have committed approximately 70% of Och-Ziff Real Estate Fund III, inclusive of reserves for projected follow-on investment.

Other

Our other assets under management are comprised of funds that are generally strategy-specific, including our equity and energy funds. Management fees for these funds range from 0.75% to 1.50% of assets under management, generally based on the amount of capital committed to these platforms by our fund investors. For the first quarter of 2018, our other funds had an average management fee rate of 0.68%.

Incentive income for our equity funds is generally 20% of realized and unrealized annual profits attributable to each investor. Incentive income related to the energy funds is generally 20% of cumulative realized profits attributable to each investor. Incentive income for these funds is subject to hurdle rates (generally 3% to 8%).

Longer-Term Assets Under Management

As of March 31, 2018, approximately 54% of our assets under management were subject to initial commitment periods of three years or longer. We earn incentive income on these assets based on the cumulative investment performance generated over this commitment period. The table below presents the amount of these assets under management, as well as the amount of incentive income accrued at the fund level but for which the commitment period has not concluded. These amounts have not yet been recognized in our revenues. Further, these amounts may ultimately not be recognized as revenue by us in the event of future losses in the respective funds. See "—Understanding Our Results—Incentive Income" for additional information.

	March 31, 2018	
	Longer-Term Assets Under Management	Accrued Unrecognized Incentive Income
	(dollars in thousands)	
Multi-strategy funds	$489,338	$ 11,186
Credit		
Opportunistic credit funds	3,528,468	190,129
Institutional Credit Strategies	11,107,486	—
Real estate funds	2,471,498	105,560
Other	291,664	1,148
	$17,888,454	$ 308,023

We generally recognize incentive income on our longer-term assets under management in multi-strategy funds and open-end opportunistic credit funds at the end of their respective commitment periods, which are generally three to five years, when such amounts are probable of not significantly reversing. We may begin recognizing incentive income related to assets under management in its closed-end opportunistic credit funds and real estate funds after the conclusion of their respective investment period. However, these investment periods may generally be extended for an additional one to two years. We recognize incentive income from these funds when such amounts are probable of not significantly reversing.

Upon adoption of new revenue accounting guidance on January 1, 2018, we recognized $128.3 million of previously accrued unrecognized incentive income through an adjustment to opening equity.

Understanding Our Results

Revenues

Our operations historically have been financed primarily by cash flows generated by our business. Our principal sources of revenues are management fees and incentive income. For any given period, our revenues are influenced by the amount of our assets under management, the investment performance of our funds and the timing of when we recognize incentive income for certain assets under management as discussed below.

The ability of investors to contribute capital to and redeem capital from our funds causes our assets under management to fluctuate from period to period. Fluctuations in assets under management also result from our funds' investment performance. Both of these factors directly impact the revenues we earn from management fees and incentive income. For example, a $1 billion increase or decrease in assets under management subject to a 1% management fee would generally increase or decrease annual management fees by $10 million. If profits, net of management fees, attributable to a fee-paying fund investor were $10 million in a given year, we generally would earn incentive income equal to $2 million, assuming a 20% incentive income rate, a one-year commitment period, no hurdle rate and no high-water marks from prior years.

For any given quarter, our revenues are influenced by the combination of assets under management and the investment performance of our funds. For example, incentive income for the majority of our multi-strategy assets under management is recognized in the fourth quarter each year, based on full year investment performance.

Management Fees. Management fees are generally calculated and paid to us on a quarterly basis in advance, based on the amount of assets under management at the beginning of the quarter. Management fees are prorated for capital inflows and redemptions during the quarter. Accordingly, changes in our management fee revenues from quarter to quarter are driven by changes in the quarterly opening balances of assets under management, the relative magnitude and timing of inflows and redemptions during the respective quarter, as well as the impact of differing management fee rates charged on those inflows and redemptions. See "—Weighted-Average Assets Under Management and Average Management Fee Rates" for information on our average management fee rate. See Note 2 to our consolidated financial statements included in this quarterly report for additional information regarding management fees.

Incentive Income. We earn incentive income based on the cumulative performance of our funds over a commitment period. Prior to the adoption of new revenue recognition accounting guidance in 2018, incentive income was recognized at the end of the applicable commitment period when the amounts were contractually payable, or “crystallized,” and when no longer subject to clawback. Beginning in 2018, as a result of the adoption of the new revenue recognition accounting guidance, we recognize incentive income when such amounts are probable of not significantly reversing. See Note 2 to our consolidated financial statements included in this quarterly report for additional information regarding incentive income.

Other Revenues. Other revenues consist primarily of interest income on investments in CLOs and cash and cash equivalents. Interest income is recognized on an effective yield basis. Additionally, prior to the sale of our aircraft in the first half of 2017, revenue related to non-business use of the corporate aircraft by certain executive managing directors was also included within other revenues. Revenue earned from non-business use of the corporate aircraft was recognized on an accrual basis based on actual flight hours.

Income of Consolidated Funds. Revenues recorded as income of consolidated funds consist of interest income, dividend income and other miscellaneous items.

Expenses

Compensation and Benefits. Compensation and benefits consist of salaries, benefits, payroll taxes, and discretionary and guaranteed cash bonus expenses. We generally recognize compensation and benefits expenses over the related service period.

On an annual basis, compensation and benefits comprise a significant portion of total expenses, with discretionary cash bonuses generally comprising a significant portion of total compensation and benefits. We accrue minimum annual discretionary cash bonus on a straight-line basis during the year. The total amount of discretionary cash bonuses ultimately recognized for the full year, which is determined in the fourth quarter of each year, could differ materially from the minimum amount accrued, as the total discretionary cash bonus is dependent upon a variety of factors, including fund performance for the year. Prior to 2017, annual discretionary bonuses were generally determined and expensed in the fourth quarter of each year.

Compensation and benefits also includes equity-based compensation expense, which is primarily in the form of RSUs granted to our independent board members, employees and executive managing directors, as well as Partner Equity Units granted to executive managing directors. In February 2018, we also issued PSUs.

We also issue Group D Units to executive managing directors. Group D Units are not considered equity under GAAP, and therefore no equity-based compensation expense is recognized related to these units when they are granted. Distributions to holders of Group D Units are included within compensation and benefits in the consolidated statements of comprehensive income (loss). These distributions are accrued in the quarter in which the related income was earned and are paid out the following quarter at the same time distributions on the Group A Units and dividends on the Company’s Class A Shares are paid. A Group D Unit converts into a Group A Unit to the extent the Company determines that it has become economically equivalent to a Group A Unit, at which point it is considered a grant of equity-based compensation for GAAP purposes. Upon the conversion of Group D Units into Group A Units, we recognize a one-time charge for the grant-date fair value of the vested units and begin to amortize the grant-date fair value of the unvested units over the vesting period. As additional Group D Units are converted into Group A Units in the future, we may see increasing non-cash equity-based compensation expense related to these units, and these non-cash expenses could be material.

We also have profit-sharing arrangements whereby certain employees or executive managing directors are entitled to a share of incentive income distributed by certain funds. This incentive income is typically paid to us, and a portion is paid to the participant, as investments held by these funds are realized. To the extent that the payments to the employees or executive managing directors are probable and reasonably estimable, we accrue these payments as compensation expense for GAAP purposes, which may occur prior to the recognition of the related incentive income.

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Deferred cash interest ("DCIs") are also granted to certain employees and executive managing directors as a form of compensation. DCIs reflect notional fund investments made by us on behalf of an employee or executive managing director. DCIs generally vest over a three year period, subject to an employee's or executive managing director's continued service. Upon vesting, we pay the employee or executive managing director an amount in cash equal to the notional investment represented by the DCIs, as adjusted for notional fund performance. Except as otherwise provided in the relevant deferred cash interest plan or in an award agreement, in the event of a termination of the employee's or executive managing director's service, any portion of the DCIs that are unvested as of the date of termination will be forfeited.

Interest Expense. Amounts included within interest expense relate primarily to indebtedness outstanding under our Senior Notes, CLO Investments Loans and Revolving Credit Facility, if any. See "—Liquidity and Capital Resources—Debt Obligations" for a summary of the terms related to these borrowings. We repaid the outstanding balance under our Revolving Credit Facility and our Aircraft Loan in the first quarter of 2017.

General, Administrative and Other. General, administrative and other expenses are comprised of professional services, occupancy and equipment, information processing and communications, recurring placement and related service fees, business development, insurance and other miscellaneous expenses.

Expenses of Consolidated Funds. Expenses recorded as expenses of consolidated funds consist of interest expense and other miscellaneous expenses.

Other Income

Changes in Tax Receivable Agreement Liability. Changes in tax receivable agreement liability consists of changes in our estimate of the future payments related to the tax receivable agreement that result from changes in future income tax savings due to changes in tax rates. See Note 15 to our consolidated financial statements included in this report for additional information.

Net Gains on Investments in Funds and Joint Ventures. Net gains on investments in funds and joint ventures primarily consist of net gains and losses on investments in our funds made by us and net gains and losses on investments in joint ventures established to expand certain of our private investments platforms.

Net Gains of Consolidated Funds. Net gains of consolidated funds consist of net realized and unrealized gains on investments held by the consolidated funds.

Income Taxes

Income taxes consist of our provision for federal, state and local income taxes in the United States and foreign income taxes, including provisions for deferred income taxes resulting from temporary differences between the tax and GAAP bases. The computation of the provision requires certain estimates and significant judgment, including, but not limited to, the expected taxable income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent differences between the tax and GAAP bases and the likelihood of being able to fully utilize deferred income tax assets existing as of the end of the period.

The Registrant and the Oz Operating Partnerships are partnerships for U.S. federal income tax purposes. Due to our legal structure, only a portion of the income we earn is subject to corporate-level income taxes in the United States and foreign jurisdictions. The amount of incentive income we earn in a given year, the resultant flow of revenues and expenses through our legal entity structure, the effect that changes in our Class A Share price may have on the ultimate deduction we are able to take related to the settlement of RSUs, and any changes in future enacted income tax rates may have a significant impact on our income tax provision and effective income tax rate.

Net Income Attributable to Noncontrolling Interests

Noncontrolling interests represent ownership interests in our subsidiaries held by parties other than us and are primarily made up of Group A Units. Increases or decreases in net income attributable to the Group A Units are driven by the earnings of the Oz Operating Group. See Note 3 for additional information regarding our ownership interest in the Oz Operating Group.

We also consolidate certain of our opportunistic credit funds, wherein investors are able to redeem their interests after an initial lock-up period of up to three years. Allocations of earnings to these interests are reflected within net income attributable to redeemable noncontrolling interests in the consolidated statements of comprehensive income (loss). Increases or decreases in the net income attributable to fund investors' interests in consolidated funds are driven by the earnings of those funds as allocated under the contractual terms of the relevant fund agreements.

Results of Operations

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Revenues

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Management fees	$72,450	$86,255
Incentive income	50,834	51,626
Other revenues	4,542	776
Income of consolidated funds	584	495
Total Revenues	$128,410	$139,152

Total revenues for the quarter-to-date period decreased by $10.7 million, primarily due to the following:

- A $13.8 million decrease in management fees, driven primarily by a $16.5 million decrease in management fees from multi-strategy funds due to lower assets under management. This decrease was partially offset by an increase of $3.0 million related in Institutional Credit Strategies due to the launches of new CLOs. See "Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate" above for information regarding our average management fee rate.
- A $792 thousand decrease in incentive income, primarily due to the following: (i) a $6.0 million decrease from our multi-strategy funds, primarily due to lower amounts earned from longer-term assets under management; (ii) a $4.1 million increase from our opportunistic credit funds, primarily due to a $17.5 million increase in amounts earned from longer-term assets under management, partially offset by a $14.4 million decrease in tax distributions; and (iii) a $3.2 million increase from our real estate funds, primarily due to tax distributions recognized in the first quarter of 2018.

Expenses

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Compensation and benefits	$68,924	$69,943
Interest expense	6,598	6,280
General, administrative and other	37,850	45,928
Expenses of consolidated funds	84	84
Total Expenses	$113,456	$122,235

Total expenses for the quarter-to-date period decreased by $8.8 million, primarily due to the following:

- A $1.0 million decrease in compensation and benefits expenses, primarily driven by the following: (i) a $2.0 million decrease in expense related to distributions accrued on the Group D Units, as less Group D Units were outstanding in the current year period; (ii) a $1.6 million decrease in salaries and benefits, primarily due to lower headcount as our global headcount decreased to 462 as of March 31, 2018 from 505 as of March 31, 2017; and (iii) a $1.1 million decrease in accrued bonus expense. These decreases were partially offset by a $3.7 million increase in equity-based compensation, primarily due to a higher number of equity-based awards outstanding in the current year period.
- An $8.1 million decrease in general, administrative and other expenses primarily due to reductions across various operating expenses as a result of expense savings initiatives.
- An offsetting $318 thousand increase in interest expense driven by interest expense incurred on additional CLO Investments Loans entered into since the first quarter of 2017, partially offset by a decrease in interest expense from the Revolving Credit Facility and the Aircraft Loan that were repaid in the first quarter of 2017.

Other Income

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Net gains on investments in funds and joint ventures	$312	$721
Net gains of consolidated funds	492	235
Total Other Income	$804	$956

Total other income remained relatively flat year-over-year.

Income Taxes

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Income taxes	$3,012	$12,056

Income tax expense for the quarter-to-date period decreased by $9.0 million. Tax expense was higher in the first quarter of 2017, primarily due to an increase in the valuation allowance in 2017 and a decrease in the U.S. statutory tax rate in 2018 to 21% from 35% as a result of the enactment of the TCJA.

Net Income Allocated to Noncontrolling Interests

The following table presents the components of the net income allocated to noncontrolling interests and to redeemable noncontrolling interests:

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Group A Units	$8,370	$9,635
Other	265	143
Total	$8,635	$9,778
Redeemable noncontrolling interests	$621	$350

Net income allocated to noncontrolling interests remained relatively flat year-over-year.

Net Income (Loss) Attributable to Class A Shareholders

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Net Income (Loss) Attributable to Class A Shareholders	$3,490	$(7,164)

Net income (loss) attributable to Class A Shareholders increased by $10.7 million for the quarter-to-date period. The year-over-year improvement was driven primarily by lower operating expenses and higher interest income, partially offset by lower management fees. Also contributing to the year-over-year improvement was an adjustment to the redemption value of Preferred Units taken in the first quarter of 2017 in the amount $2.9 million that reduced the net income attributable to Class A Shareholders in that period.

Economic Income Analysis

In addition to analyzing our results on a GAAP basis, management also reviews our results on an "Economic Income" basis. Economic Income excludes the adjustments described below that are required for presentation of our results on a GAAP basis, but that management does not consider when evaluating operating performance in any given period. Management uses Economic Income as the basis on which it evaluates our financial performance and makes resource allocation and other operating decisions. Management considers it important that investors review the same operating information that it uses.

Economic Income is a measure of pre-tax operating performance that excludes the following from our results on a GAAP basis:

- Income allocations to our executive managing directors on their direct interests in the Oz Operating Group. Management reviews operating performance at the Oz Operating Group level, where our operations are performed, prior to making any income allocations.
- Equity-based compensation expenses, depreciation and amortization expenses, and gains and losses on fixed assets, as management does not consider these items to be reflective of operating performance. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement.
- Changes in the tax receivable agreement liability and gains and losses on investments in funds, as management does not consider these items to be reflective of operating performance.
- Amounts related to the consolidated funds, including the related eliminations of management fees and incentive income, as management reviews the total amount of management fees and incentive income earned in relation to total assets under management and fund performance.

In addition, expenses related to compensation and profit-sharing arrangements based on fund investment performance are generally recognized at the same time the related incentive income revenue, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund. Further, deferred cash compensation is expensed in full in the year granted for Economic Income, rather than over the service period for GAAP.

As a result of the adjustments described above, as well as an adjustment to present management fees net of recurring placement and related service fees (rather than considering these fees an expense), management fees, incentive income, other revenues, compensation and benefits, non-compensation expenses and net income (loss) allocated to noncontrolling interests as presented on an Economic Income basis are also non-GAAP measures. For reconciliations of our non-GAAP measures to the respective GAAP measures, please see "—Economic Income Reconciliations" at the end of this MD&A.

Our non-GAAP financial measures should not be considered as alternatives to our GAAP net income allocated to Class A Shareholders or cash flow from operations, or as indicative of liquidity or the cash available to fund operations. Our non-GAAP measures may not be comparable to similarly titled measures used by other companies.

We currently have two operating segments: the Oz Funds segment and our real estate business. The Oz Funds segment, which provides asset management services to our multi-strategy funds, dedicated credit funds and other alternative investment vehicles, is currently our only reportable operating segment under GAAP. Our real estate business, which provides asset management services to our real estate funds, is included within Other Operations as it does not meet the threshold of a reportable operating segment under GAAP.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Economic Income Revenues (Non-GAAP)

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	$62,975	$ 4,734	$67,709	$75,552	$ 5,259	$80,811
Incentive income	46,239	4,595	50,834	50,422	1,204	51,626
Other revenues	4,433	70	4,503	750	26	776
Total Economic Income Revenues	$113,647	$ 9,399	$123,046	$126,724	$ 6,489	$133,213

Economic Income revenues for the quarter-to-date period decreased by $10.2 million, primarily due to the following:

- A $13.1 million decrease in management fees, driven primarily by a $15.4 million decrease in management fees from multi-strategy funds due to lower assets under management. This decrease was partially offset by an increase of $2.7 million in Institutional Credit Strategies due to launches of new CLOs. See “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rate” above for information regarding our average management fee rate.
- A $792 thousand decrease in incentive income, primarily due to the following: (i) a $6.0 million decrease from our multi-strategy funds, primarily due to lower amounts earned from longer-term assets under management; (ii) a $4.1 million increase from our opportunistic credit funds, primarily due to a $17.5 million increase in amounts earned from longer-term assets under management, partially offset by a $14.4 million decrease in tax distributions; and (iii) a $3.2 million increase from our real estate funds, primarily due to tax distributions recognized in the first quarter of 2018.

Economic Income Expenses (Non-GAAP)

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Compensation and benefits	$25,798	$ 7,221	$ 33,019	$41,365	$ 4,899	$ 46,264
Non-compensation expenses	36,585	711	37,296	41,913	638	42,551
Total Economic Income Expenses	$62,383	$ 7,932	$ 70,315	$83,278	$ 5,537	$ 88,815

Economic Income expenses for the quarter-to-date period decreased by $18.5 million, primarily due to the following:

- A $13.2 million decrease in compensation and benefit expenses primarily due to a $11.6 million decrease in bonus expense, primarily due to deferred cash compensation forfeitures. The remainder is due to a $1.6 million decrease in salaries and benefits expense, which was driven by lower headcount.

- A $5.3 million decrease in non-compensation expenses was primarily due to reductions across various operating expenses as a result of expense savings initiatives.

Economic Income (Non-GAAP)

	Three Months Ended March 31,	
	2018	2017
	(dollars in thousands)	
Economic Income:		
Oz Funds Segment	$51,275	$43,446
Other Operations	1,467	952
Total Company	$52,742	$44,398

Economic Income increased by $8.3 million for the quarter-to-date period. The increase was driven primarily by lower compensation and benefit expenses.

Liquidity and Capital Resources

The working capital needs of our business have historically been met, and we anticipate will continue to be met, through cash generated from management fees and incentive income earned by the Oz Operating Group from our funds, as well as other sources of liquidity noted above and below.

Over the next 12 months, we expect that our primary liquidity needs will be to:

- Pay our operating expenses, primarily consisting of compensation and benefits and non-compensation expenses.
- Pay interest and principal on our debt obligations.
- Provide capital to facilitate the growth of our business, including making risk retention investments in CLOs managed by us.
- Pay income taxes as well as compensation-related tax withholding obligations.
- Make cash distributions in accordance with our distribution policy as discussed below under "—Dividends and Distributions."

Historically, management fees have been sufficient to cover all of our "fixed" operating expenses, which we define as salaries, benefits, a minimum discretionary bonus and our non-compensation costs incurred in the ordinary course of business. Rate reductions in our multi-strategy funds combined with year-over-year net capital outflows have resulted in lower management fees, and while we are making every effort to scale our operations so that management fees are sufficient to cover our fixed operating expenses, our current management fees do not cover our current fixed operating expenses. No assurances can be given that our management fees ultimately will be sufficient for these purposes in future periods.

In the event that management fees do not cover fixed operating expenses, we would rely on cash on hand and incentive income to cover any shortfall, as well as to fund any other liabilities. We cannot predict the amount of incentive income, if any, that we may earn in any given year. Total annual revenues, which are heavily influenced by the amount of incentive income we earn, historically have been sufficient to fund both our fixed operating expenses and all of our other working capital needs, including annual discretionary cash bonuses. These cash bonuses, which historically have comprised our largest cash operating expense, are variable such that in any year where total annual revenues are greater or less than the prior year, cash bonuses may be adjusted accordingly. Our ability to scale our largest cash operating expense to our total annual revenues helps us manage our cash flow and liquidity position from year to year.

Based on our past results, management's experience and our current level of assets under management, we believe that our existing cash resources, together with the cash generated from management fees will be sufficient to meet our anticipated fixed operating expenses and other working capital needs for at least the next 12 months.

Historically, we have determined the amount of discretionary cash bonuses, including discretionary annual cash awards under the PIP, during the fourth quarter of each year, based on our total annual revenues. We have historically funded these amounts through fourth quarter management fees and incentive income crystallized on December 31, which represents the majority of the incentive income we typically earn each year. Starting in the first quarter of 2017, we began to accrue a minimum amount of discretionary cash bonuses on a pro rata basis throughout the year. To the extent our funds generate incentive income in the fourth quarter, we may elect to increase the amount of cash bonuses paid to employees over the amount already accrued, with any incremental amounts recognized as expense in the fourth quarter. Although we cannot predict the amount, if any, of incentive income we may earn, we are able to regularly monitor expected management fees and we believe that we will be able to adjust our expense infrastructure, including discretionary cash bonuses, as needed to meet the requirements of our business and in order to maintain positive operating cash flows. Nevertheless, if we generate insufficient cash flows from operations to meet our short-term liquidity needs, we may have to borrow funds or sell assets, subject to existing contractual arrangements.

We may use cash on hand to repay all or a portion of our outstanding indebtedness or any other liabilities prior to their respective maturity or due dates, which would reduce amounts available to distribute to our Class A Shareholders. For any amounts unpaid as of a maturity or due date, we will be required to repay the remaining balance by using cash on hand, refinancing the remaining balance by issuing new notes or entering into new credit facilities, which could result in higher borrowing costs, or by issuing equity or other securities, which would dilute existing shareholders. No assurance can be given that we will be able to issue new notes, enter into new credit facilities or issue equity or other securities in the future on attractive terms or at all. Any new notes or new credit facilities that we may be able to issue or enter into may have covenants that impose additional limitations on us, including with respect to making distributions, entering into business transactions or other matters, and may result in increased interest expense. If we are unable to meet our debt obligations on terms that are favorable to us, our business may be adversely impacted. See "—Debt Obligations" for more information.

Since the CLO risk retention requirements went into effect, we have used a combination of cash on hand and CLO Investments Loans to fund our 5% risk retention investments in newly launched and recently refinanced CLOs. Currently, we expect to continue relying on a combination of cash on hand and CLO Investments Loans to fund future CLO risk retention investments.

For our other longer-term liquidity requirements, we expect to continue to fund our fixed operating expenses through management fees and to fund discretionary cash bonuses and the repayment of our debt obligations through a combination of management fees and incentive income. We may also decide to meet these requirements by borrowing funds under our Revolving Credit Facility or by issuing additional debt, equity or other securities.

Over the long term, we believe we will be able to grow our assets under management and generate positive investment performance in our funds, which we expect will allow us to grow our management fees and incentive income in amounts sufficient to cover our long-term liquidity requirements.

To maintain maximum flexibility to meet demands and opportunities both in the short and long term, and subject to existing contractual arrangements, we may want to retain cash, issue additional equity or borrow additional funds to:

- Support the future growth in our business.
- Create new or enhance existing products and investment platforms.
- Repay borrowings.
- Pursue new investment opportunities.
- Develop new distribution channels.
- Cover potential costs incurred in connection with the legal and regulatory matters described in the notes to our consolidated financial statements included in this report.

Market conditions and other factors may make it more difficult or costly to raise or borrow additional funds. Excessive costs or other significant market barriers may limit or prevent us from maximizing our growth potential and flexibility.

Debt Obligations

Redemption of Senior Notes and New Senior Credit Agreement

On April 10, 2018 (“the Closing Date”), we entered into a new senior secured credit and guaranty agreement (the “Senior Credit Agreement”) consisting of (i) a $250 million term loan facility (the “Term Loan Facility”) and (ii) a $100 million revolving credit facility (the “Revolving Facility”). We borrowed the full amount available under the Term Loan Facility on the date of closing. On May 1, 2018, we repaid $50.0 million of the amounts outstanding under the Term Loan Facility. In connection with entry into the Senior Credit Agreement, we terminated all commitments and repaid all obligations under our existing credit and guaranty agreement, dated as of November 20, 2014. See Note 17 to our consolidated financial statements included in this report for additional details.

CLO Investments Loans

We enter into loans to finance portions of our investments in CLOs (collectively “the CLO Investments Loans”). In general, we will make interest and principal payments on the loans at such time interest payments are received on our investments in the CLOs, and will make principal payments on the loans to the extent principal payments are received on its investments in the CLOs. See Note 8 to our consolidated financial statements included in this report for additional details on our CLO Investments Loans.

Tax Receivable Agreement

We have made, and may in the future be required to make, payments under the tax receivable agreement that we entered into with our executive managing directors and the Ziffs. The purchase by the Oz Operating Partnerships of Group A Units from our executive managing directors and the Ziffs with proceeds from the IPO and concurrent private Class A Share offering in 2007 (collectively, the “2007 Offerings”), and subsequent taxable exchanges by them of Group A Units for our Class A Shares on a one-for-one basis (or, at our option, a cash equivalent), resulted, and, in the case of future exchanges, are anticipated to result, in an increase in the tax basis of the assets of the Oz Operating Partnerships that would not otherwise have been available. We anticipate that any such tax basis adjustment resulting from an exchange will be allocated principally to certain intangible assets of the Oz Operating Partnerships, and we will derive our tax benefits principally through amortization of these intangibles over a 15-year period from the date of the 2007 Offerings or the date of any subsequent exchange. Consequently, these tax basis adjustments will increase, for tax purposes, our depreciation and amortization expenses and will therefore reduce the amount of tax that Oz Corp and any other corporate taxpaying entities that hold Group B Units in connection with an exchange, if any, would otherwise be required to pay in the future. Accordingly, pursuant to the tax receivable agreement, such corporate taxpaying entities (including Och-Ziff Capital Management Group LLC if it is treated as a corporate taxpayer) have agreed to pay our executive managing directors and the Ziffs 85% of the amount of cash savings, if any, in federal, state and local income taxes in the United States that these entities actually realize related to their units as a result of such increases in tax basis.

In connection with the departure of certain former executive managing directors since the IPO, the right to receive payments under the tax receivable agreement by those former executive managing directors was contributed to the Oz Operating Partnerships. As a result, we expect to pay to the other executive managing directors and the Ziffs approximately 78% (from 85% at the time of the IPO) of the amount of cash savings, if any, in federal, state and local income taxes in the United States that we actually realize as a result of such increases in tax basis. To the extent that we do not realize any cash savings, we would not be required to make corresponding payments under the tax receivable agreement.

Payments under the tax receivable agreement are anticipated to increase the tax basis adjustment of intangible assets resulting from a prior exchange, with such increase being amortized over the remainder of the amortization period applicable to the original basis adjustment of such intangible assets resulting from such prior exchange. It is anticipated that this will result in increasing annual amortization deductions in the taxable years of and after such increases to the original basis adjustments, and potentially will give rise to increasing tax savings with respect to such years and correspondingly increasing payments under the tax receivable agreement.

As of March 31, 2018, assuming no material changes in the relevant tax law and that we generate sufficient taxable income to realize the full tax benefit of the increased amortization resulting from the increase in tax basis of our assets, we expect to pay our executive managing directors and the Ziffs approximately $280.0 million as a result of the cash savings to our

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intermediate holding companies from the purchase of Group A Units from our executive managing directors and the Ziffs with proceeds from the 2007 Offerings and the exchange of Group A Units for Class A Shares. Future cash savings and related payments to our executive managing directors under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The obligation to make payments under the tax receivable agreement is an obligation of Oz Corp, and any other corporate taxpaying entities that hold Group B Units, and not of the Oz Operating Group. We may need to incur debt to finance payments under the tax receivable agreement to the extent the Oz Operating Partnerships do not distribute cash to our intermediate corporate tax paying entities in an amount sufficient to meet our obligations under the tax receivable agreement.

The actual increase in tax basis of the Oz Operating Partnerships assets resulting from an exchange or from payments under the tax receivable agreement, as well as the amortization thereof and the timing and amount of payments under the tax receivable agreement, will vary based upon a number of factors, including the following:

- The amount and timing of the income of Oz Corp will impact the payments to be made under the tax receivable agreement. To the extent that Oz Corp does not have sufficient taxable income to utilize the amortization deductions available as a result of the increased tax basis in the Oz Operating Partnerships' assets, payments required under the tax receivable agreement would be reduced.
- The price of our Class A Shares at the time of any exchange will determine the actual increase in tax basis of the Oz Operating Partnerships' assets resulting from such exchange; payments under the tax receivable agreement resulting from future exchanges, if any, will be dependent in part upon such actual increase in tax basis.
- The composition of the Oz Operating Partnerships' assets at the time of any exchange will determine the extent to which Oz Corp may benefit from amortizing its increased tax basis in such assets and thus will impact the amount of future payments under the tax receivable agreement resulting from any future exchanges.
- The extent to which future exchanges are taxable will impact the extent to which Oz Corp will receive an increase in tax basis of the Oz Operating Partnerships' assets as a result of such exchanges, and thus will impact the benefit derived by Oz Corp and the resulting payments, if any, to be made under the tax receivable agreement.
- The tax rates in effect at the time any potential tax savings are realized, which would affect the amount of any future payments under the tax receivable agreement.

Depending upon the outcome of these factors, payments that we may be obligated to make to our executive managing directors and the Ziffs under the tax receivable agreement in respect of exchanges could be substantial. In light of the numerous factors affecting our obligation to make payments under the tax receivable agreement, the timing and amounts of any such actual payments are not reasonably ascertainable.

Dividends and Distributions

The table below presents the cash dividends paid on our Class A Shares in 2018, and the related cash distributions to our executive managing directors on their Group A Units and Group D Units.

	Class A Shares		
Payment Date	Record Date	Dividend per Share	Related Distributions to Executive Managing Directors (dollars in thousands)
March 5, 2018	February 26, 2018	$ 0.07	$ 20,771

We intend to distribute to our Class A Shareholders substantially all of their pro rata share of our annual Economic Income (as described above under "—Economic Income Analysis") in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to pay income taxes, to pay any amounts owed under the tax receivable agreement, to make appropriate investments in our business and our funds, to make payments on any of our other obligations, to fund the repurchase of Class A Shares or interests in the Oz Operating Group, as well as to fund distributions on the Preferred Units starting in 2020. Subject to certain exceptions, unless distributions on the Preferred Units are declared and paid in cash for the then current distribution period and all preceding periods after the initial closing of the Preferred Units, the Oz Operating Partnerships may not declare or pay distributions on or repurchase any of their equity securities that rank equal with or junior to

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the Preferred Units. See Note 10 to our consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2017 for additional information regarding the terms of the Preferred Units.

When we pay dividends on our Class A Shares, we also intend to make distributions to our executive managing directors on their interests in the Oz Operating Group, subject to the terms of the limited partnership agreements of the Oz Operating Partnerships.

The declaration and payment of future distributions will be at the sole discretion of our Board of Directors, which may change our distribution policy or reduce or eliminate our distributions at any time in its discretion. Our Board of Directors will take into account such factors as it may deem relevant, including general economic and business conditions; our strategic plans and prospects; our business and investment opportunities; our financial condition and operating results; working capital requirements and anticipated cash needs; contractual restrictions and obligations, including payment obligations pursuant to the tax receivable agreement and restrictions pursuant to our term loan; legal, tax and regulatory restrictions; other restrictions and limitations on the payment of distributions by us to our Class A Shareholders or by our subsidiaries to us; and such other factors as our Board of Directors may deem relevant.

The declaration and payment of any distribution may be subject to legal, contractual or other restrictions. For example, as a Delaware limited liability company, Och-Ziff Capital Management Group LLC is not permitted to make distributions if and to the extent that after giving effect to such distributions, its liabilities would exceed the fair value of its assets. Our cash needs and payment obligations may fluctuate significantly from quarter to quarter, and we may have material unexpected expenses in any period. This may cause amounts available for distribution to significantly fluctuate from quarter to quarter or may reduce or eliminate such amounts.

Additionally, RSUs outstanding accrue dividend equivalents equal to the dividend amounts paid on our Class A Shares. To date, these dividend equivalents have been awarded in the form of additional RSUs, which accrue additional dividend equivalents. The dividend equivalents will only be paid if the related RSUs vest and will be settled at the same time as the underlying RSUs. Our Board of Directors has the right to determine whether the RSUs and any related dividend equivalents will be settled in Class A Shares or in cash. We currently withhold shares to satisfy the tax withholding obligations related to vested RSUs and dividend equivalents held by our employees, which results in the use of cash from operations or borrowings to satisfy these tax-withholding payments.

In accordance with the Oz Operating Partnerships’ limited partnership agreements, we may cause the applicable Oz Operating Partnerships to distribute cash to the intermediate holding companies and our executive managing directors in an amount at least equal to the presumed maximum tax liabilities arising from their direct ownership in these entities. The presumed maximum tax liabilities are based upon the presumed maximum income allocable to any such unit holder at the maximum combined U.S. federal, New York State and New York City tax rates. Holders of our Class A Shares may not always receive distributions at a time when our intermediate holding companies and our executive managing directors are receiving distributions on their interests, as distributions to our intermediate holding companies may be used to settle tax liabilities, if any, or other obligations. Such tax distributions will take into account the disproportionate income allocation (but not a disproportionate cash allocation) to the unit holders with respect to “built-in gain assets,” if any, at the time of the IPO. Consequently, Oz Operating Partnership tax distributions may be greater than if such assets had a tax basis equal to their value at the time of the IPO.

Our cash distribution policy has certain risks and limitations, particularly with respect to our liquidity. Although we expect to pay distributions according to our policy, we may not make distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the distribution. Moreover, if the Oz Operating Group’s cash flows from operations are insufficient to enable it to make required minimum tax distributions discussed above, the Oz Operating Group may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our obligations, operations, new investments or unanticipated capital expenditures, should the need arise. In such event, we may not be able to execute our business and growth strategy to the extent intended.

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Our Funds' Liquidity and Capital Resources

Our funds have access to liquidity from our prime brokers and other counterparties. Additionally, our funds may have committed facilities in addition to regular financing from our counterparties. These sources of liquidity provide our funds with additional financing resources, allowing them to take advantage of opportunities in the global marketplace.

Our funds' current liquidity position could be adversely impacted by any substantial, unanticipated investor redemptions from our funds that are made within a short time period. As discussed above in "—Assets Under Management and Fund Performance," capital contributions from investors in our multi-strategy and open-end opportunistic credit funds generally are subject to initial lock-up periods of one to three years. Following the expiration of these lock-up periods, subject to certain limitations, investors may redeem capital generally on a quarterly or annual basis upon giving 30 to 90 days' prior written notice. These lock-ups and redemption notice periods help us to manage our liquidity position. However, upon the payment of a redemption fee to the applicable fund and upon giving 30 days' prior written notice, certain investors may redeem capital during the lock-up period. Investors in our other funds are generally not allowed to redeem until the end of the life of the fund.

We also follow a rigorous risk management process and regularly monitor the liquidity of our funds' portfolios in relation to economic and market factors and the timing of potential investor redemptions. As a result of this process, we may determine to reduce exposure or increase the liquidity of our funds' portfolios at any time, whether in response to global economic and market conditions, redemption requests or otherwise. For these reasons, we believe we will be well prepared to address market conditions and redemption requests, as well as any other events, with limited impact on our funds' liquidity position. Nevertheless, significant redemptions made during a single quarter could adversely affect our funds' liquidity position, as we may meet redemptions by using our funds' available cash or selling assets (possibly at a loss). Such actions would result in lower assets under management, which would reduce the amount of management fees and incentive income we may earn. Our funds could also meet redemption requests by increasing leverage, provided we are able to obtain financing on reasonable terms, if at all. We believe our funds have sufficient liquidity to meet any anticipated redemptions for the foreseeable future.

Cash Flows Analysis

Operating Activities. Net cash from operating activities for the three months ended March 31, 2018 and 2017 was $159.9 million and $(7.7) million, respectively. Our net cash flows from operating activities are generally comprised of current-year management fees, the collection of incentive income earned during the fourth quarter of the previous year, interest income collected on our investments in CLO's, less cash used for operating expenses, including interest paid on our debt obligations. Additionally, net cash from operating activities also includes the investment activities of the funds we consolidate.

The net cash outflows from operating activities for the three months ended March 31, 2018 and 2017 increased due to higher incentive income earned in 2017 and paid in 2018 as compared to incentive earned in 2016 and paid in 2017. The increase in operating cash flow was partially offset by higher discretionary bonuses paid in 2018 as compared to 2017. The majority of our incentive income is generally collected and the related bonus payments are paid out during the first quarter of the following year. These cash inflows were partially offset by the investment activities of the funds we consolidate. These investment-related cash flows are of the consolidated funds and do not directly impact the cash flows related to our Class A Shareholders.

Investing Activities. Net cash from investing activities for the three months ended March 31, 2018 and 2017 was $(70.3) million and $53.6 million, respectively. Investing cash outflows in the first quarter of 2018 primarily related to purchases of investments in CLOs and in U.S. government obligations, partially offset by maturities of U.S. government obligations. Investment-related cash flows of the consolidated funds are classified within operating activities. Investing cash flows in the first quarter of 2017 primarily related to the sale of one of our corporate aircraft.

Financing Activities. Net cash from financing activities for the three months ended March 31, 2018 and 2017 was $50.1 million and $(23.8) million, respectively. Our net cash from financing activities is generally comprised of dividends paid to our Class A Shareholders and borrowings and repayments related to our debt obligations, as well as proceeds from Preferred Units offerings. Contributions from noncontrolling interests, which relate to fund investor contributions into the consolidated funds, and distributions to noncontrolling interests, which relate to fund investor redemptions and distributions to our executive managing directors on their Group A Units, are also included in net cash from financing activities.

We paid dividends of $13.4 million to our Class A Shareholders and $17.2 million of distributions to our executive managing directors on their Group A Units in the three months ended March 31, 2018. In three months ended March 31, 2017, we issued $150.0 million of Preferred Units. During that period, we also paid dividends of $1.8 million to our Class A Shareholders and $3.0 million of distributions to our executive managing directors on their Group A Units in the first quarter of 2017. Additionally, in March 2017, we repaid $120.0 million outstanding on our Revolving Credit Facility using proceeds from the second offering of Preferred Units and $46.4 million outstanding on our Aircraft Loan using proceeds from the sale of one of our corporate aircraft.

Contractual Obligations

During the first quarter of 2018, we entered into three new CLO Investments Loans. In April 2018, we started the process of redemption of our Senior Notes and entered into a new credit agreement. Refer to Note 17 for additional details.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning general partner interests in our funds and retained interests in a CLO we manage. We also have ongoing capital commitment arrangements with certain of our funds. None of our off-balance sheet arrangements require us to fund losses or guarantee target returns to investors in any of our other investment funds. See Notes 4 and 5 of our consolidated financial statements included in this report for information on our retained and variable interests in our funds and CLOs.

Critical Accounting Policies and Estimates

Critical accounting policies are those that require us to make significant judgments, estimates or assumptions that affect amounts reported in our financial statements or the notes thereto. We base our judgments, estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable and prudent. Actual results may differ materially from these estimates. See Note 2 to our consolidated financial statements included in this report for a description of our accounting policies. Set forth below is a summary of what we believe to be our most critical accounting policies and estimates.

Fair Value of Investments

The valuation of investments held by our funds is the most critical estimate made by management impacting our results. Pursuant to specialized accounting for investment companies under GAAP, investments held by the funds are carried at their estimated fair values. The valuation of investments held by our funds has a significant impact on our results, as our management fees and incentive income are generally determined based on the fair value of these investments.

GAAP prioritizes the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of assets and liabilities and the specific characteristics of the assets and liabilities. Assets and liabilities with readily available, actively quoted prices (Level I) or for which fair value can be measured from actively quoted prices (Level II) generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value than those measured using pricing inputs that are unobservable in the market (Level III). See Note 4 to our consolidated financial statements included in this report for additional information regarding fair value measurements.

As of March 31, 2018, the absolute values of our funds' invested assets and liabilities (excluding the notes and loans payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 40% within Level I; approximately 38% within Level II; and approximately 22% within Level III. As of December 31, 2017, the absolute values of our funds' invested assets and liabilities (excluding the notes and loans payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 43% within Level I; approximately 35% within Level II; and approximately 22% within Level III. The percentage of our funds' assets and liabilities within the fair value hierarchy will fluctuate based on the investments made at any given time and such fluctuations could be significant. A portion of our funds' Level III assets relate to Special Investments or other investments on which we do not earn any incentive income until such investments are sold or otherwise realized. Upon the sale or realization event of these assets, any realized profits are included in the calculation of incentive income for such year.

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Accordingly, the estimated fair value of our funds' Level III assets may not have any relation to the amount of incentive income actually earned with respect to such assets.

Valuation of Investments. Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants as of the measurement date. The fair value of our funds' investments is based on observable market prices when available. We, as the investment manager of our funds, determine the fair value of investments that are not actively traded on a recognized securities exchange or otherwise lack a readily ascertainable market value. The methods and procedures to value these investments may include the following: performing comparisons with prices of comparable or similar securities; obtaining valuation-related information from the issuers; calculating the present value of future cash flows; assessing other analytical data and information relating to the investment that is an indication of value; obtaining information provided by third parties; and evaluating financial information provided by the management of these investments. Significant judgment and estimation goes into the assumptions that drive our valuation methodologies and procedures for assets that are not actively traded on a recognized securities exchange or otherwise lack a readily ascertainable market value. The actual amounts ultimately realized could differ materially from the values estimated based on the use of these methodologies. Realizations at values significantly lower than the values at which investments have been reflected could result in losses at the fund level and a decline in future management fees and incentive income. Such situations may also negatively impact fund investor perception of our valuation policies and procedures, which could result in redemptions and difficulties in raising additional capital.

We have established an internal control infrastructure over the valuation of financial instruments that includes ongoing oversight by our Valuations Controls Group and Valuation Committee, as well as periodic audits by our Internal Audit Group. These management control functions are segregated from the trading and investing functions.

The Valuation Committee is responsible for establishing the valuation policy and monitors compliance with the policy, ensuring that all of the funds' investments reflect fair value, as well as providing oversight of the valuation process. The valuation policy includes, but is not limited to the following: determining the pricing sources used to value specific investment classes; the selection of independent pricing services; performing due diligence of independent pricing services; and the classification of investments within the fair value hierarchy. The Valuation Committee reviews a variety of reports on a monthly basis, which include the following: summaries of the sources used to determine the value of the funds' investments; summaries of the fair value hierarchy of the funds' investments; methodology changes and variance reports that compare the values of investments to independent pricing services. The Valuation Committee is independent from the investment professionals and may obtain input from investment professionals for consideration in carrying out its responsibilities.

The Valuation Committee has assigned the responsibility of performing price verification and related quality controls in accordance with the valuation policy to the Valuation Controls Group. The Valuation Controls Group's other responsibilities include the following: overseeing the collection and evaluation of counterparty prices, broker-dealer quotations, exchange prices and pricing information provided by independent pricing services. Additionally, the Valuation Control Group is responsible for performing back testing by comparing prices observed in executed transactions to valuations and valuations provided by independent pricing service providers on a bi-weekly and monthly basis; performing stale pricing analysis on a monthly basis; performing due diligence reviews on independent pricing services on an annual basis; and recommending changes in valuation policies to the Valuation Committee. The Valuation Controls Group also verifies that indicative broker quotations used to value certain investments are representative of fair value through procedures such as comparison to independent pricing services, back testing procedures, review of stale pricing reports and performance of other due diligence procedures as may be deemed necessary.

Investment professionals and members of the Valuation Controls Group review a daily profit and loss report, as well as other periodic reports that analyze the profit and loss and related asset class exposure of the funds' investments.

The Internal Audit Group employs a risk-based program of audit coverage that is designed to provide an assessment of the design and effectiveness of controls over the Company's operations, regulatory compliance, valuation of financial instruments and reporting. Additionally, the Internal Audit Group meets periodically with management and the Audit Committee of the

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Company's Board of Directors to evaluate and provide guidance on the existing risk framework and control environment assessments.

For information regarding the impact that the fair value measurement of assets under management has on our results, please see "Part I—Item 3. Quantitative and Qualitative Disclosures about Market Risk."

Recognition of Incentive Income

The determination of whether to recognize incentive income under GAAP requires a significant amount judgment regarding whether it is probable that a significant revenue reversal of incentive income that we are potentially entitled to as of a point in time will not occur in future periods, which would preclude the recognition of such amounts as incentive income. Management considers a variety of factors when evaluating whether the recognition of incentive income is appropriate, including: the performance of the fund, whether the we have received or are entitled to receive incentive income distributions and whether such amounts are restricted, the investment period and expected term of the fund, where the fund is in its life-cycle, the volatility and liquidity of investments held by the fund, our team's experience with similar investments and potential sales of investments within the fund. Management continuously evaluates whether there are additional considerations that could potentially impact the recognition of incentive income and notes that the recognition, and potential reversal, of incentive income is subject to potentially significant variability due to changes to the aforementioned considerations.

Variable Interest Entities

The determination of whether or not to consolidate a variable interest entity under GAAP requires a significant amount of judgment concerning the degree of control over an entity by its holders of variable interests. To make these judgments, management has conducted an analysis, on a case-by-case basis, of whether we are the primary beneficiary and are therefore required to consolidate the entity. Management continually reconsiders whether we should consolidate a variable interest entity. Upon the occurrence of certain events, such as investor redemptions or modifications to fund organizational documents and investment management agreements, management will reconsider its conclusion regarding the status of an entity as a variable interest entity.

Income Taxes

We use the asset and liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established when management believes it is more likely than not that a deferred income tax asset will not be realized. Substantially all of our deferred income tax assets relate to the goodwill and other intangible assets deductible for tax purposes by Oz Corp that arose in connection with the purchase of Group A Units from our executive managing directors and the Ziffs with proceeds from the 2007 Offerings, subsequent exchanges of Group A Units for Class A Shares and subsequent payments to our executive managing directors and the Ziffs made under the tax receivable agreement, in addition to any related net operating loss carryforward. In accordance with relevant provisions of the Internal Revenue Code, we expect to take these goodwill and other intangible deductions over the 15-year period following the 2007 Offerings and subsequent exchanges, as well as an additional 20-year loss carryforward period available to us for net operating losses generated prior to 2018 and indefinite carryforward period for net operating losses generated beginning 2018, in order to fully realize the deferred income tax assets. Our analysis of whether we expect to have sufficient future taxable income to realize these deductions is based solely on estimates over this period.

Oz Corp generated taxable income of $12.6 million for the three months ended March 31, 2018, before taking into account deductions related to the amortization of the goodwill and other intangible assets. We determined that we would need to generate taxable income of at least $1.3 billion over the remaining six-year weighted-average amortization period, as well as an additional 20-year loss carryforward period available, in order to fully realize the deferred income tax assets. Using the estimates and assumptions discussed below, we expect to generate sufficient taxable income over the remaining amortization and loss carryforward periods available to us in order to fully realize these deferred income tax assets.

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To generate $1.3 billion in taxable income over the remaining amortization and loss carryforward periods available to us, we estimated that, based on estimated assets under management of $32.3 billion as of April 1, 2018, we would need to generate a minimum compound annual growth rate in assets under management of less than 2% over the period for which the taxable income estimate relates to fully realize the deferred income tax assets, assuming no performance-related growth, and therefore no incentive income. The assumed nature and amount of this estimated growth rate are not based on historical results or current expectations of future growth; however, the other assumptions underlying the taxable income estimate, such as general maintenance of current expense ratios and cost allocation percentages among the Oz Operating Partnerships, which impact the amount of taxable income flowing through our legal structure, are based on our near-term operating budget. If our actual growth rate in assets under management falls below this minimum threshold for any extended time during the period for which these estimates relate and we do not otherwise experience offsetting growth rates in other periods, we may not generate taxable income sufficient to realize the deferred income tax assets and may need to record a valuation allowance.
Management regularly reviews the model used to generate the estimates, including the underlying assumptions. If it determines that a valuation allowance is required for any reason, the amount would be determined based on the relevant circumstances at that time. To the extent we record a valuation allowance against our deferred income tax assets related to the goodwill and other intangible assets, we would record a corresponding decrease in the liability to our executive managing directors and the Ziffs under the tax receivable agreement equal to approximately 78% of such amount; therefore, our net income (loss) allocated to Class A Shareholders would only be impacted by 22% of any valuation allowance recorded against the deferred income tax assets.
Actual taxable income may differ from the estimate described above, which was prepared solely for determining whether we currently expect to have sufficient future taxable income to realize the deferred income tax assets. Furthermore, actual or estimated future taxable income may be materially impacted by significant changes in assets under management, whether as a result of fund investment performance or fund investor contributions or redemptions, significant changes to the assumptions underlying our estimates, future changes in income tax law, state income tax apportionment or other factors.
As of March 31, 2018, we had $291.9 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2030 and 2038, and $152.5 million of net operating losses available to offset future taxable income for state income tax purposes and $149.4 million for local income tax purposes that will expire between 2035 and 2038. Based on the analysis set forth above, as of March 31, 2018, we have determined that it is not necessary to record a valuation allowance with respect to our deferred income tax assets related to the goodwill and other intangible assets deductible for tax purposes, and any related net operating loss carryforward. However, we have determined that we may not realize certain foreign income tax credits and accordingly, a valuation allowance of $11.5 million has been established for these items.
Impact of Recently Adopted Accounting Pronouncements on Recent and Future Trends
The Financial Accounting Standards Board (the "FASB") has issued various Accounting Standards Updates ("ASUs") that could impact our future trends. For additional details regarding these ASUs, including methods of adoption, see Note 2 to our consolidated financial statements included in this report for additional information.
ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605—Revenue Recognition and most industry-specific revenue recognition guidance throughout the ASC. We adopted ASU 2014-09 using a modified retrospective application approach in the first quarter of 2018. We generally expect to recognize incentive income from certain funds in periods earlier that under the revenue recognition guidance in effect prior to the adoption of ASU 2014-09. See Note 2 to our consolidated financial statements included in this report for additional information on the adoption.
None of the other changes to GAAP that went into effect during the three months ended March 31, 2018 are expected to impact our future trends.

Expected Impact of Future Adoption of New Accounting Pronouncements on Future Trends

Listed below are ASUs that have been issued but that we have not yet adopted that may impact our future trends. For additional details regarding these ASUs, including methods of adoption, see Note 2 to our consolidated financial statements included in this report.

ASU 2016-02, Leases. ASU 2016-02 significantly changes accounting for lease arrangements, in particular from the perspective of the lessee. Upon adoption of the ASU, where we are the lessee, we will likely be required to recognize certain lease arrangements on our balance sheet for the first time, but will continue to recognize associated expenses on our statement of comprehensive income in a manner similar to existing accounting principles. The requirements of ASU 2016-02 are effective for us beginning in the first quarter of 2019. We have determined that most of our operating leases will be reported on our consolidated balance sheet at their present value. We do not expect the adoption of ASU 2016-02 to have a material effect on our future expense trends. See Note 15 to our consolidated financial statements included in this report for details related to our existing operating lease obligations as of March 31, 2018.

None of the other changes to GAAP that have been issued but that we have not yet adopted are expected to impact our future trends.

Economic Income Reconciliations

The tables below present the reconciliations of Economic Income and its components to the respective GAAP measures for the periods presented in this MD&A.

Economic Income

	Three Months Ended March 31, 2018		
	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Income Attributable to Class A Shareholders—GAAP	$2,475	$ 1,015	$3,490
Change in redemption value of Preferred Units	—	—	—
Net Income Allocated to Och-Ziff Capital Management Group LLC—GAAP	2,475	1,015	3,490
Net income allocated to Group A Units	8,370	—	8,370
Equity-based compensation, net of RSUs settled in cash	21,249	646	21,895
Adjustment to recognize deferred cash compensation in the period of grant	12,783	—	12,783
Income taxes	3,089	(77)	3,012
Allocations to Group D Units	1,340	50	1,390
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	(155)	(7)	(162)
Depreciation, amortization and net gains and losses on fixed assets	2,372	—	2,372
Other adjustments	(248)	(160)	(408)
Economic Income—Non-GAAP	$51,275	$ 1,467	$52,742

	Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Loss Attributable to Class A Shareholders—GAAP	$(5,480)	$ (1,684)	$(7,164)
Change in redemption value of Preferred Units	2,853	—	2,853
Net Loss Allocated to Och-Ziff Capital Management Group LLC—GAAP	(2,627)	(1,684)	(4,311)
Net income allocated to Group A Units	9,635	—	9,635
Equity-based compensation	17,698	780	18,478
Adjustment to recognize deferred cash compensation in the period of grant	(138)	—	(138)
Income taxes	12,052	4	12,056
Allocations to Group D Units	3,310	50	3,360
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	1,979	1,979
Depreciation, amortization and loss on asset held for sale	4,212	—	4,212
Other adjustments	(696)	(177)	(873)
Economic Income—Non-GAAP	$43,446	$ 952	$44,398

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Economic Income Revenues

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	$67,716	$ 4,734	$72,450	$80,996	$ 5,259	$86,255
Adjustment to management fees[1]	(4,741)	—	(4,741)	(5,444)	—	(5,444)
Management Fees—Economic Income Basis—Non-GAAP	62,975	4,734	67,709	75,552	5,259	80,811
Incentive income—GAAP	46,239	4,595	50,834	50,422	1,204	51,626
Adjustment to incentive income[2]	—	—	—	—	—	—
Incentive Income—Economic Income Basis—Non-GAAP	46,239	4,595	50,834	50,422	1,204	51,626
Other revenues—GAAP	4,472	70	4,542	750	26	776
Adjustment to other revenues[3]	(39)	—	(39)	—	—	—
Other Revenues—Economic Income Basis—Non-GAAP	4,433	70	4,503	750	26	776
Total Revenues—Economic Income Basis—Non-GAAP	$113,647	$ 9,399	$123,046	$126,724	$ 6,489	$133,213

(1) Adjustment to present management fees net of recurring placement and related service fees, as management considers these fees a reduction in management fees, not an expense. The impact of eliminations related to the consolidated funds is also removed.
(2) Adjustment to exclude the impact of eliminations related to the consolidated funds.
(3) Adjustment to exclude realized gains on sale of fixed assets.

Economic Income Expenses

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	$61,013	$ 7,911	$68,924	$62,235	$ 7,708	$69,943
Adjustment to compensation and benefits[1]	(35,215)	(690)	(35,905)	(20,870)	(2,809)	(23,679)
Compensation and Benefits—Economic Income Basis—Non-GAAP	$25,798	$ 7,221	$33,019	$41,365	$ 4,899	$46,264
Interest expense and general, administrative and other expenses—GAAP	$43,737	$ 711	$44,448	$51,570	$ 638	$52,208
Adjustment to interest expense and general, administrative and other expenses[2]	(7,152)	—	(7,152)	(9,657)	—	(9,657)
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	$36,585	$ 711	$37,296	$41,913	$ 638	$42,551

(1) Adjustment to exclude equity-based compensation, as management does not consider these non-cash expenses to be reflective of our operating performance. However, the fair value of RSUs that are settled in cash to employees or executive managing directors is included as an expense at the time of settlement. Further, expenses related to compensation and profit-sharing arrangements based on fund investment performance are generally recognized at the same time as the related incentive income revenue, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund. Distributions to the Group D Units are also excluded, as management reviews operating performance at

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the Oz Operating Group level, where our operations are performed, prior to making any income allocations. Further, deferred cash compensation is expensed in full in the year granted for Economic Income, rather than over the service period for GAAP.

(2) Adjustment to exclude depreciation, amortization and losses on fixed assets as management does not consider these items to be reflective of our operating performance. Additionally, recurring placement and related service fees are excluded, as management considers these fees a reduction in management fees, not an expense.

Other Economic Income Items

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Oz Funds Segment	Other Operations	Total Company	Oz Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net gains on investments in funds and joint ventures—GAAP	$(154)	$ 466	$ 312	$ 389	$ 332	$ 721
Adjustment to net gains on investments in funds and joint ventures(1)	154	(466)	(312)	(389)	(332)	(721)
Net Gains on Joint Ventures—GAAP	$—	$ —	$—	$—	$ —	$—
Net income attributable to noncontrolling interests—GAAP	$ 8,329	$ 306	$ 8,635	$ 9,623	$ 155	$ 9,778
Adjustment to net income (loss) attributable to noncontrolling interests(2)	(8,340)	(306)	(8,646)	(9,623)	(155)	(9,778)
Net Income Attributable to Noncontrolling Interests—Economic Income Basis—Non-GAAP	$(11)	$ —	$(11)	$—	$ —	$—

(1) Adjustment to exclude gains and losses on investments in funds, as management does not consider these items to be reflective of our operating performance.

(2) Adjustment to exclude amounts allocated to our executive managing directors on their interests in the Oz Operating Group, as management reviews operating performance at the Oz Operating Group level. We conduct substantially all of our activities through the Oz Operating Group. Additionally, the impact of the consolidated funds, including the allocation of earnings to investors in those funds, is also removed.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our predominant exposure to market risk is related to our role as general partner or investment manager for the funds, and the sensitivities to movements in the fair value of their investments that may adversely affect our management fees and incentive income.

Fair value of the financial assets and liabilities of the funds may fluctuate in response to changes in the value of investments, foreign currency exchange rates, commodity prices and interest rates. The fair value changes in the assets and liabilities of the funds may affect the management fees and incentive income we may earn from the funds.

With regards to the consolidated funds, the net effect of these fair value changes primarily impacts the net gains of consolidated funds in our consolidated statements of comprehensive income (loss); however, a large portion of these fair value changes is absorbed by the investors of these funds (noncontrolling interests). We may also be entitled to a portion of these earnings through our incentive income allocation as general partner of these funds.

Impact on Management Fees

Management fees for our multi-strategy and opportunistic credit funds are generally based on the net asset value of those funds. Accordingly, management fees will generally change in proportion to changes in the fair value of investments held by these funds. Management fees for our real estate funds and certain other funds are generally based on committed capital during the original investment period and invested capital thereafter; therefore, management fees are not impacted by changes in the fair value of investments held by those funds.

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Impact on Incentive Income
Incentive income for our funds is generally based on a percentage of profits generated by our funds over a commitment period, which is impacted by global market conditions and other factors. Major factors that influence the degree of impact include how the investments held by our funds are impacted by changes in the market and the extent to which any high-water marks impact our ability to earn incentive income. Consequently, incentive income cannot be readily predicted or estimated.
Market Risk
The amount of our assets under management is generally based on the net asset value of multi-strategy and opportunistic credit funds (plus unfunded commitments for certain closed-end opportunistic credit funds), and committed or invested capital for our real estate funds and certain other funds. A 10% change in the fair value of the net assets held by our funds as of March 31, 2018 and December 31, 2017, would have resulted in a change of approximately $1.8 billion and $1.9 billion in our assets under management.
A 10% change in the fair value of the net assets held by our funds as of April 1, 2018 (the date management fees are calculated for the second quarter of 2018) would impact management fees charged on that day by approximately $4.8 million. A 10% change in the fair value of the net assets held by our funds as of January 1, 2018, would have impacted management fees charged on that day by approximately $5.1 million.
A 10% change in the fair value of the net assets held by our funds as of the end of any year (excluding unrealized gains and losses in Special Investments or other investments on which we do not earn any incentive income until such investments are sold or otherwise realized), could significantly affect our incentive income, as incentive income is generally based on a percentage of annual profits generated by our funds. We do not earn incentive income on unrealized gains attributable to Special Investments and certain other investments, and therefore a change in the fair value of those investments would have no effect on incentive income.
Exchange Rate Risk
Our funds hold investments denominated in non-U.S. dollar currencies, which may be affected by movements in the rate of exchange between the U.S. dollar and foreign currencies. We estimate that as of March 31, 2018 and December 31, 2017, a 10% weakening or strengthening of the U.S. dollar against all or any combination of currencies to which our funds have exposure to exchange rates would not have a material effect on our revenues, net income attributable to Class A Shareholders or Economic Income.
Interest Rate Risk
Our Senior Notes are fixed-rate borrowings. Any borrowings under the CLO Investments Loans, and the Revolving Credit Facility, if any, and as well as our investments in CLOs accrue interest at variable rates. Our funds also have financing arrangements and hold credit instruments that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest income and interest expense, future earnings and cash flows.
We estimate that as of March 31, 2018 and December 31, 2017, a 100 basis point increase or decrease in variable rates would not have a material effect on our annual interest income, interest expense, net income attributable to Class A Shareholders or Economic Income. A tightening of credit and an increase in prevailing interest rates could make it more difficult for us to raise capital and sustain the growth rate of the funds.
Credit Risk
Credit risk is the risk that counterparties or debt issuers may fail to fulfill their obligations or that the collateral value may become inadequate to cover our exposure. We manage credit risk by monitoring the credit exposure to and the creditworthiness of counterparties, requiring additional collateral where appropriate.

Item 4. Controls and Procedures

Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level as of March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that occurred in the first quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. We are from time to time involved in litigation and claims incidental to the conduct of our business. Like other businesses in our industry, we are subject to extensive scrutiny by regulatory agencies globally that have, or may in the future have, regulatory authority over us and our business activities. This has resulted in, or may in the future result in, regulatory agency investigations, litigation and subpoenas, and related sanctions and costs. See “Item 1A. Risk Factors” below and “Part I, Item 1A. Risk Factors—Risks Related to Our Business—Regulatory changes in jurisdictions outside the United States could adversely affect our business” in our Annual Report. See Note 15 to our consolidated financial statements included in this report for additional information.

Item 1A. Risk Factors

Please see “Item 1A. Risk Factors” in our Annual Report for a discussion of the risks material to our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.1	Partner Agreement between OZ Management LP and James Levin, dated as of February 16, 2018 and effective January 1, 2018.
10.2	Partner Agreement between OZ Advisors LP and James Levin, dated as of February 16, 2018 and effective January 1, 2018.
10.3	Partner Agreement between OZ Advisors II LP and James Levin, dated as of February 16, 2018 and effective January 1, 2018.
10.4	Partner Agreement between OZ Management LP and Rob Shafir, dated as of March 6, 2018.
10.5	Partner Agreement between OZ Advisors LP and Rob Shafir, dated as of March 6, 2018.
10.6	Partner Agreement between OZ Advisors II LP and Rob Shafir, dated as of March 6, 2018.
10.7	Cancellation, Reallocation and Grant Agreement, dated as of March 28, 2018.
10.8	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of OZ Management LP, dated as of March 1, 2017.
10.9	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of OZ Advisors LP, dated as of March 1, 2017.
10.10	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of OZ Advisors II LP, dated as of March 1, 2017.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 2, 2018

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

By: /s/ Alesia J. Haas
Alesia J. Haas
Chief Financial Officer and Executive Managing Director