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

FORM 10-K

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2016

Commission File Number 001-33805

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation)

26-0354783
(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

Securities registered pursuant to Section 12(b) of the Act:

Class A Shares
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2016 was approximately \$670.4 million. As of February 23, 2017, there were 184,907,841 Class A Shares and 297,538,137 Class B Shares outstanding.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the 2017 annual meeting of Och-Ziff Capital Management Group LLC's shareholders to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Form 10-K.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>19</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>58</u>
<u>Item 2. Properties</u>	<u>58</u>
<u>Item 3. Legal Proceedings</u>	<u>59</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>59</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>60</u>
<u>Item 6. Selected Financial Data</u>	<u>62</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>63</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>109</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>111</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>111</u>
<u>Item 9A. Controls and Procedures</u>	<u>111</u>
<u>Item 9B. Other Information</u>	<u>112</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>114</u>
<u>Item 11. Executive Compensation</u>	<u>114</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>114</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>114</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>114</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>115</u>
<u>Item 16. Form 10-K Summary</u>	<u>115</u>
<u>Signatures</u>	<u>116</u>
<u>Exhibit Index</u>	<u>117</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

Defined Terms

<i>2007 Offerings</i>	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
<i>active executive managing directors</i>	Executive managing directors who remain active in our business
<i>Class A Shares</i>	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
<i>Class B Shares</i>	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
<i>CLOs</i>	Collateralized loan obligations
<i>Exchange Act</i>	Securities Exchange Act of 1934, as amended
<i>executive managing directors</i>	The current limited partners of the Och-Ziff Operating Group entities 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 the business of the Company
<i>GAAP</i>	U.S. generally accepted accounting principles
<i>intermediate holding companies</i>	Refers collectively to Och-Ziff Corp and Och-Ziff Holding, both of which are wholly owned subsidiaries of Och-Ziff Capital Management Group LLC
<i>Institutional Credit Strategies</i>	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
<i>IPO</i>	Our initial public offering of 36.0 million Class A Shares that occurred in November 2007
<i>NYSE</i>	New York Stock Exchange
<i>Och-Ziff, the Company, the firm, we, us, our</i>	Refers, unless the context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Och-Ziff Operating Group
<i>Och-Ziff Corp</i>	Och-Ziff Holding Corporation, a Delaware corporation
<i>Och-Ziff funds, funds</i>	The multi-strategy, opportunistic credit, real estate and equity funds, Institutional Credit Strategies products and other alternative investment vehicles for which we provide asset management services
<i>Och-Ziff Holding</i>	Och-Ziff Holding LLC, a Delaware limited liability company
<i>Och-Ziff Operating Group</i>	Refers collectively to OZ Management, OZ Advisors I and OZ Advisors II, and their consolidated subsidiaries

<i>Och-Ziff Operating Group A Units</i>	Refers collectively to one Class A operating group unit in each of the Och-Ziff Operating Group entities. Och-Ziff Operating Group A Units are equity interests held by our executive managing directors.
<i>Och-Ziff Operating Group B Units</i>	Refers collectively to one Class B operating group unit in each of the Och-Ziff Operating Group entities. Och-Ziff Operating Group B Units are equity interests held by our intermediate holding companies.
<i>Och-Ziff Operating Group D Units</i>	Refers collectively to one Class D operating group unit in each of the Och-Ziff Operating Group entities. Och-Ziff Operating Group D Units are non-equity, limited partner profits interests held by our executive managing directors.
<i>Och-Ziff Operating Group P Units</i>	Refers collectively to one Class P operating group unit in each of the Och-Ziff Operating Group entities. Och-Ziff Operating Group P Units are equity interests held by our executive managing directors.
<i>OZ Advisors I</i>	OZ Advisors LP, a Delaware limited partnership
<i>OZ Advisors II</i>	OZ Advisors II LP, a Delaware limited partnership
<i>OZ Management</i>	OZ Management LP, a Delaware limited partnership
<i>Preferred Units</i>	One Class A cumulative preferred unit in each of the Och-Ziff Operating Group entities collectively represents one “Preferred Unit.” Certain of our executive managing directors collectively own 100% of the Preferred Units.
<i>Registrant</i>	Och-Ziff Capital Management Group LLC, a Delaware limited liability company
<i>Reorganization</i>	The reorganization of our business that took place prior to the IPO
<i>SEC</i>	U.S. Securities and Exchange Commission
<i>Securities Act</i>	Securities Act of 1933, as amended
<i>Special Investments</i>	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
<i>Ziffs</i>	Refers collectively to Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons

Available Information

Och-Ziff Capital Management Group LLC files 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.ozcap.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. Also posted on our website in the “Public Investors – Corporate Governance” section are charters for our Audit Committee; Compensation Committee; and Nominating, Corporate Governance and Conflicts 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 Och-Ziff fund.

Forward-Looking Statements

Some of the statements under “Item 1. Business,” “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which we refer to as “MD&A,” “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this annual 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,” “should,” “could,” “seek,” “approximately,” “predict,” “intend,” “plan,” “estimate,” “anticipate,” “opportunity,” “comfortable,” “assume,” “remain,” “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 on us; the consequences of the Foreign Corrupt Practices Act (the “FCPA”) 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 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 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 those described in “Item 1A. Risk Factors.”

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

Item 1. Business

Business Description

Och-Ziff is a leading global institutional alternative asset manager, with approximately \$33.6 billion in assets under management as of February 1, 2017. We provide asset management services through our funds, which pursue a broad range of global investment opportunities, and by developing new, carefully considered investment products. We also offer customized solutions within and across our product platforms to help our fund investors meet their investment objectives. Our funds invest across numerous asset classes and geographies, with a breadth we believe is offered by few alternative asset management firms.

Our approach to asset management is based on the same fundamental elements that we have employed since Och-Ziff was founded in 1994. Our objectives are to create long-term value for our fund investors through a disciplined investment philosophy that focuses on delivering consistent, positive, risk-adjusted returns across market cycles. Our extensive experience, combined with the consistency of our approach to investing and managing risk, have been integral to the growth of our assets under management. We currently manage multi-strategy, dedicated credit and real estate funds and other alternative investment vehicles.

Multi-Strategy - Our multi-strategy funds combine global investment strategies, including long/short equity special situations, structured credit, corporate credit, convertible and derivative arbitrage, merger arbitrage and private investments. Our focus is on investing in value opportunities based on detailed, research-based analysis and thorough due diligence. Our multi-strategy funds allocate capital across strategies and geographies opportunistically based on market conditions and opportunities, with no predetermined capital allocations by strategy or asset class.

Credit - Our dedicated credit funds are comprised of opportunistic credit funds and our Institutional Credit Strategies products. 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. Institutional Credit Strategies is our asset management platform that invests in performing credits via CLOs and other customized solutions for clients.

Real Estate - 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. These funds typically seek to preserve capital and mitigate risk by limiting competitive bidding. The real estate funds focus on proprietary sourcing, discretion in deal selection, thorough due diligence, intensive asset management, multiple defined exit strategies and structured downside protection to seek and manage investments.

We have built an experienced investment management team with a well-established presence in the United States, Europe and Asia. As of December 31, 2016, we had 524 employees worldwide, including 156 investment professionals, 23 active executive managing directors and 79 managing directors working from our offices in New York, London, Hong Kong, Mumbai, Beijing, Shanghai and Houston. Our New York office was established in 1994 and has been operational for over 20 years. Our London office, established in 1998, houses our European investment team. Our Hong Kong office, established in 2001, houses the majority of our Asian investment team. See “—Employees” for additional information on our global headcount.

We currently have two operating segments: the Och-Ziff Funds segment and our real estate business. The Och-Ziff Funds segment is currently our only reportable operating segment under GAAP and provides asset management services to our multi-strategy funds, dedicated credit funds and other alternative investment vehicles. 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. See Note 18 to our consolidated financial statements included in this annual report for additional information regarding the Och-Ziff Funds segment.

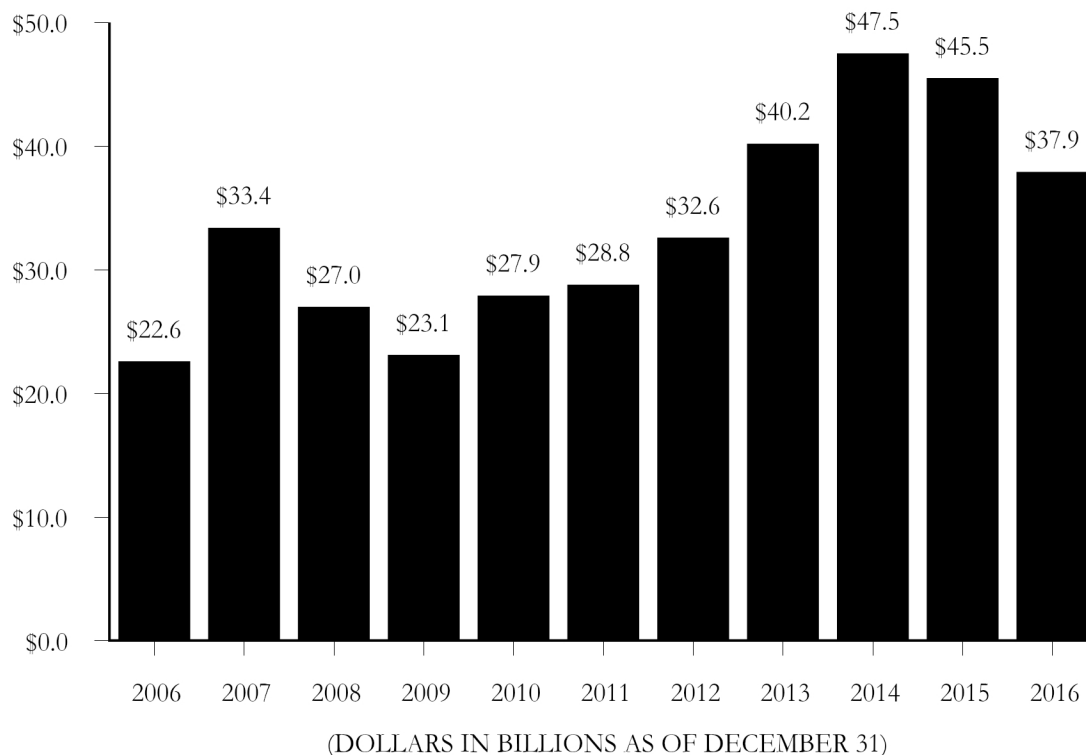
Our primary sources of revenues are management fees, which are based on the amount of our assets under management, and incentive income, which is based on the investment performance of our funds. Accordingly, for any given

period, our revenues will be driven by the combination of assets under management and the investment performance of our funds.

Our Assets Under Management

Our assets under management are a function of the capital that is allocated to us by the investors in our funds and the investment performance of our funds. Over the last ten years, we have increased our total assets under management at a compound annual growth rate (“CAGR”) of 5% to \$37.9 billion as of December 31, 2016.

OCH-ZIFF HISTORICAL ASSETS UNDER MANAGEMENT



For additional information regarding assets under management, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Assets Under Management and Fund Performance.”

Overview of Our Funds

Multi-Strategy

As of December 31, 2016, we managed approximately \$21.1 billion of assets under management in our multi-strategy funds, or 56% of our total assets under management. The portfolio composition of our multi-strategy funds is determined by evaluating what we believe are the best market opportunities for each fund, consistent with each fund’s goal of generating consistent, positive, risk-adjusted returns while protecting fund investor capital. The primary investment strategies we employ in our multi-strategy funds include the following:

- **Long/short equity special situations**, which consists of fundamental long/short and event-driven investing. Fundamental long/short investing involves analyzing companies and assets to profit where we believe mispricing or undervaluation exists. Event-driven investing attempts to realize gain from corporate events such as spin-offs,

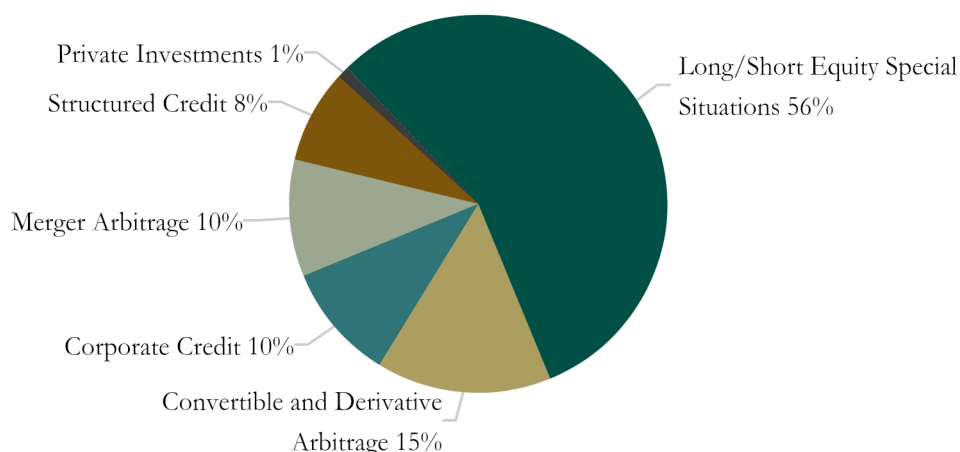
recapitalizations and other corporate restructurings, whether company specific or due to industry or economic conditions.

- **Structured credit**, which involves investments in residential and commercial mortgage-backed securities and other asset-backed securities. This strategy also includes investments in collateralized loan obligations and collateralized debt obligations.
- **Corporate credit**, which includes a variety of credit-based strategies, such as high-yield debt investments in distressed businesses and investments in bank loans and senior secured debt. Corporate credit also includes providing mezzanine financing and structuring creative capital solutions.
- **Convertible and derivative arbitrage**, which takes advantage of price discrepancies between convertible and derivative securities and the underlying equity or other security. These investments may be made at multiple levels of an entity's capital structure to profit from valuation or other pricing discrepancies. This strategy also includes volatility trades in equities, interest rates, currencies and commodities.
- **Merger arbitrage**, which is an event-driven strategy involving multiple investments in entities contemplating a merger or similar business combination. This strategy seeks to realize a profit from pricing discrepancies among the securities of the entities involved in the event.
- **Private investments**, which encompasses investments in a variety of special situations that seek to realize value through strategic sales or initial public offerings.

The OZ Master Fund, our global multi-strategy fund, opportunistically allocates capital between our investment strategies in North America, Europe and Asia based on market conditions and attractive investment opportunities. The OZ Master Fund generally employs every strategy and geography in which our funds invest and constituted approximately 47% of our assets under management as of December 31, 2016. Our other funds implement geographical- or strategy-focused investment programs. The investment performance for our other funds may vary from those of the OZ Master Fund, and that variance may be material.

The chart below presents the composition, by strategy (excluding residual assets attributable to redeeming investors), of the OZ Master Fund as of January 1, 2017:

OZ MASTER FUND BY STRATEGY



The table below sets forth, as of December 31, 2016, the net annualized return, volatility and Sharpe Ratio of the OZ Master Fund, the Och-Ziff Multi-Strategy Composite (as defined below), the S&P 500 Index and the MSCI World Index. This table is provided for illustrative purposes only. The performance reflected in the table below is not necessarily indicative of the

future results of the OZ Master Fund. There can be no assurance that any Och-Ziff fund will achieve comparable results. An investment in our Class A Shares is not an investment in any of our funds. See “Item 1A. Risk Factors—Risks Related to Our Business—An investment in our Class A Shares is not an alternative to an investment in any of our funds, and the returns of our funds should not be considered as indicative of any returns expected on our Class A Shares, although poor investment performance of, or lack of capital flows into, the funds we manage could have a materially adverse impact on our revenues and, therefore, the returns on our Class A Shares.”

Past performance is no indication or guarantee of future results.

Net Annualized Return through December 31, 2016	1 Year	3 Years	5 Years	Since OZ Master Fund Inception (January 1, 1998)	Since Och-Ziff Multi-Strategy Composite Inception (April 1, 1994)
OZ Master Fund Composite ⁽¹⁾	3.8%	3.0%	6.8%	8.8%	n/a
Och-Ziff Multi-Strategy Composite ⁽²⁾	3.8%	3.0%	6.8%	8.8%	11.8%
S&P 500 Index ⁽³⁾	12.0%	8.9%	14.7%	6.5%	9.5%
MSCI World Index ⁽³⁾	9.7%	7.5%	13.4%	5.6%	7.3%
Volatility - Standard Deviation (Annualized)⁽⁴⁾					
OZ Master Fund Composite ⁽¹⁾	4.7%	5.2%	4.5%	5.0%	n/a
Och-Ziff Multi-Strategy Composite ⁽²⁾	4.7%	5.2%	4.5%	5.0%	5.4%
S&P 500 Index ⁽³⁾	10.3%	10.7%	10.4%	15.2%	14.7%
MSCI World Index ⁽³⁾	10.0%	10.4%	10.2%	14.4%	13.9%
Sharpe Ratio⁽⁵⁾					
OZ Master Fund Composite ⁽¹⁾	0.70	0.51	1.45	1.28	n/a
Och-Ziff Multi-Strategy Composite ⁽²⁾	0.70	0.51	1.45	1.28	1.64
S&P 500 Index ⁽³⁾	1.11	0.80	1.39	0.27	0.44
MSCI World Index ⁽³⁾	0.92	0.69	1.29	0.23	0.32

- (1) The returns shown represent the composite performance of all feeder funds that comprise the OZ Master Fund since the inception of the OZ Master Fund on January 1, 1998 (collectively, the “OZ Master Fund Composite”). The OZ Master Fund Composite is calculated using the total return of all feeder funds net of all fees and expenses, except incentive income on Special Investments that could reduce returns on these investments at the time of realization, and includes the reinvestment of all dividends and other income. Performance 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/or initial public offering investments may experience materially different returns. The OZ Master Fund Composite is not available for direct investment.
- (2) The Och-Ziff Multi-Strategy Composite is provided as supplemental information to the OZ Master Fund Composite. The Och-Ziff Multi-Strategy Composite 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 our 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. 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 we followed. Furthermore, the composition of the investment strategies we follow is subject to our discretion and has varied materially since inception and is expected to vary materially in the future.
- (3) These comparisons show the returns of the S&P 500 Index (SPTR) and the MSCI World Index (GDDLWI) (collectively, the “Broader Market Indices”) against the OZ Master Fund Composite and the Och-Ziff Multi-Strategy Composite. These comparisons are intended solely for illustrative purposes to show a historical comparison of the OZ Master Fund Composite and the Och-Ziff Multi-Strategy Composite to the broader equity markets, as represented by the Broader Market Indices, and should not be considered as an indication of how the OZ Master Fund or the feeder funds will perform relative to the Broader Market Indices in the future. The Broader Market Indices are not performance benchmarks of the OZ Master Fund or the feeder funds. Neither the OZ Master Fund nor the feeder funds are managed to correlate in any way with the returns or composition of the Broader Market Indices, which are unmanaged. It is not possible to invest in an unmanaged index. You should not assume that there is any material overlap between the securities underlying the OZ Master Fund Composite or the Och-Ziff Multi-Strategy Composite and those that comprise the Broader Market Indices. The S&P 500 Index is an equity index owned and maintained by Standard & Poor’s, a division of McGraw-Hill, whose value is calculated as the free float-weighted average of the

share prices of 500 large-capitalization corporations listed on the NYSE and NASDAQ. The MSCI World Index is a free float-adjusted market capitalization weighted index owned and maintained by MSCI Inc. that is designed to measure the equity market performance of developed markets. Returns of the Broader Market Indices have not been reduced by fees and expenses associated with investing in securities and include the reinvestment of dividends.

- (4) Standard Deviation is a statistical measure of volatility that measures the fluctuation of the monthly rates of return against the average return.
- (5) Sharpe Ratio represents a measure of the excess return of a portfolio over the risk-free rate. The Sharpe Ratio is calculated by subtracting the risk-free rate from the composite returns, and dividing that amount by the standard deviation of the returns. The risk-free rate of return used in computing the Sharpe Ratio is the one-month U.S. dollar London Interbank Offered Rate compounded monthly throughout the periods presented.

Credit

As of December 31, 2016, we managed approximately \$13.4 billion of assets under management in our dedicated credit funds, or 35% of our total assets under management. Our dedicated credit funds are comprised of our opportunistic credit funds and our Institutional Credit Strategies products.

Opportunistic Credit Funds

As of December 31, 2016, we managed approximately \$5.4 billion of assets under management in our 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. As of December 31, 2016, assets under management in the OZ Credit Opportunities Master Fund, our global opportunistic credit fund, totaled \$1.8 billion. The remainder of the assets under management in our opportunistic credit funds was comprised of various open-end and closed-end funds, as well as customized solutions structured to meet our fund investors' needs.

Institutional Credit Strategies

As of December 31, 2016, we managed approximately \$8.0 billion of assets under management in our Institutional Credit Strategies products. 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.

Real Estate

As of December 31, 2016, we managed approximately \$2.2 billion of assets under management in our real estate funds, or 6% of our total assets under management. Our real estate funds employ a situation-specific, opportunistic investment strategy, combined with a disciplined risk assessment process. These funds seek to diversify investments across geography, asset types and transaction structures to actively balance the portfolios within each of the funds.

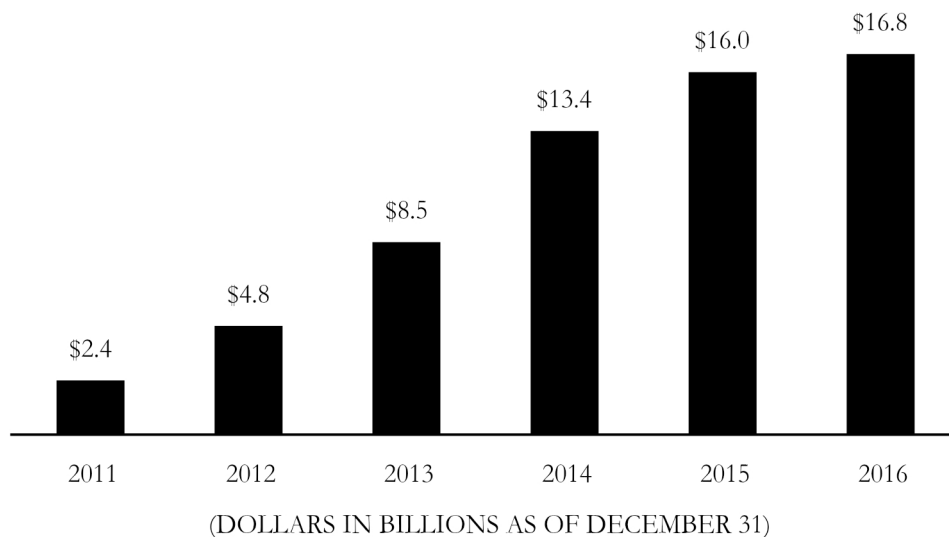
Other

Our other assets under management are comprised of funds that are generally strategy-specific, including our equity funds and other dedicated strategy funds. Our equity funds' investment objective is to achieve consistent, absolute returns with low volatility primarily by seeking to exploit pricing inefficiencies in equity securities. Investment strategies include, but may not be limited to, merger arbitrage and long/short equity special situations.

Diversification of Assets Under Management

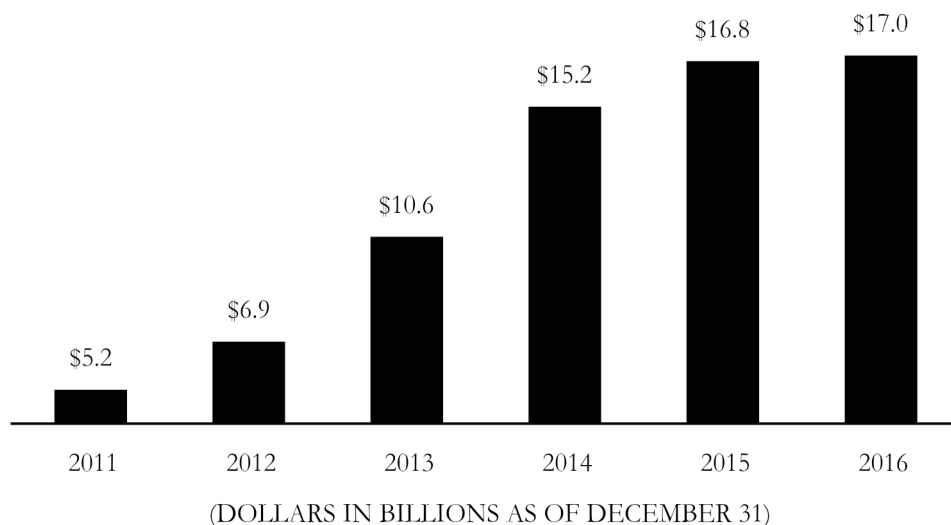
We continue to pursue a strategy of diversifying our assets under management primarily by expanding our fund offerings in dedicated credit, real estate and other strategy-specific funds (collectively, “Dedicated Strategy Funds”). As of December 31, 2016, these assets under management totaled \$16.8 billion, or 44% of our total assets under management, compared with \$2.4 billion, or 8%, five years ago. We believe that we are well positioned to continue to increase the diversification of our asset base through the growth of these products.

ASSETS UNDER MANAGEMENT IN DEDICATED STRATEGY FUNDS



As we have continued to diversify the type of funds we offer, we have also increased the amount of our longer-term assets under management. Over the last five years, our longer-term assets under management, which are those subject to initial commitment periods of three years or longer, have increased from approximately 18% to 45% of our total assets under management as of December 31, 2016. Our longer-term assets under management are comprised of a portion of the capital invested in the OZ Master Fund and certain other multi-strategy funds, as well as the majority of the capital in our Dedicated Strategy Funds. For additional information regarding longer-term assets under management, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Longer-Term Assets Under Management.”

LONGER-TERM ASSETS UNDER MANAGEMENT



Investment and Risk Management Process

Our extensive investment experience, combined with the consistency of our approach to investing and risk management, has been integral to extending our performance history. Risk management is central to the investment process in all of our funds and the operations of our business. Our investment and risk management processes benefit from our dedicated and experienced investment teams operating out of our offices worldwide.

Our approach to investing and managing risk is defined by certain common elements:

- *Proactive risk management with a focus on risk-adjusted returns.* Our risk management practices are at the core of our investment philosophy, playing a crucial role in the asset allocation within our funds and in the operation of our business. Quantitative and qualitative analyses are utilized at both the individual position and total portfolio levels, and they have been integrated into our daily investment process. Our portfolio managers adhere to a research-driven, bottom-up approach to identifying and managing investments, using strong in-house investment and risk control teams. We employ a disciplined process to evaluate the risk-adjusted return on capital from existing and new investments.
- *Preservation of capital.* Preservation of capital is our top priority and critical to delivering attractive returns to fund investors. Our goal is to preserve capital during periods of market decline and generate competitive investment performance in rising markets. We use sophisticated risk analysis and active portfolio management to limit exposure to market and other risks across all strategies. We generally limit the use of leverage for most of our funds, and are disciplined and patient when entering new markets.

- *Dynamic capital allocation.* We allocate capital dynamically across strategies and geographies, consistent with the investment objectives for each of our funds. Opportunities and market conditions determine portfolio composition rather than predetermined capital allocations by assets class or strategy, while at the same time we maintain an active focus on portfolio diversification and risk management.
- *Expertise across strategies and geographies.* We leverage our capital allocation philosophy and investment expertise across capital structures, industries and geographies to anticipate, identify and capitalize on investment trends across multiple disciplines. We have fostered a culture that allows us to allocate capital and evaluate investment opportunities on a firm-wide basis, focusing on the best ideas and opportunities available.

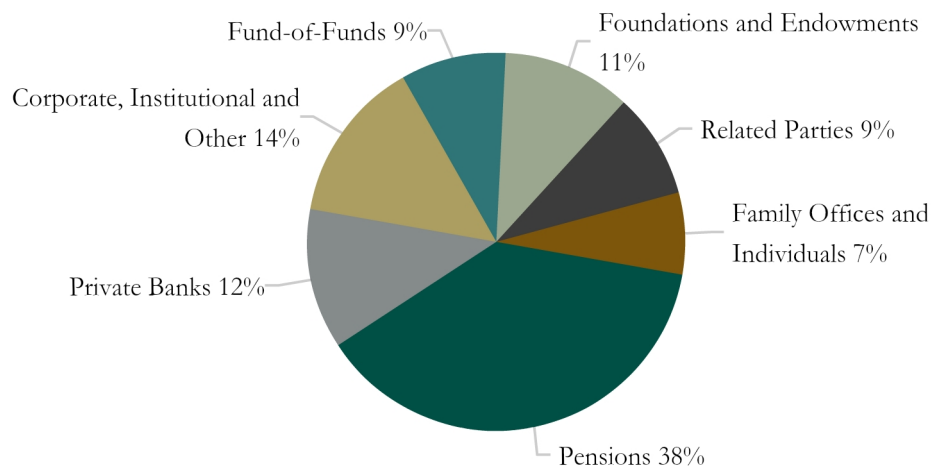
Our Fund Investors

We focus on developing and maintaining long-term relationships with a global base of institutional investors, which includes many of the largest, most sophisticated investors in the world. Excluding CLOs, we currently have over 1,400 investors in our funds, including pension funds, private banks, corporates and other institutions, fund-of-funds, foundations and endowments, and family offices and individuals. Our investors value our funds' consistent performance history, our global investing expertise, our diverse investment strategies and our ability to develop investment capabilities in areas where we see opportunities evolve. As a result, a number of our fund investors invest in more than one of our funds.

Investments by our executive managing directors and employees collectively comprised approximately 9% of our total assets under management as of January 1, 2017. The single largest unaffiliated investor in our funds accounted for approximately 12% of our total assets under management as of January 1, 2017, and the top five unaffiliated fund investors accounted for approximately 27%. Approximately 25% of our investors were from outside North America as of January 1, 2017. These percentages, as well as those presented in the chart below, exclude assets under management in our CLOs, which are held by various types of investors.

The following chart presents the composition of our fund investors by type across our funds as of January 1, 2017:

FUND INVESTORS BY TYPE



Competitive Environment

The asset management industry is intensely competitive, and we expect that it will remain so. We compete globally and regionally with other investment managers, including hedge funds, public and private investment firms, distressed debt funds, mezzanine funds and other CLO issuers, real estate development companies, business development companies, investment banks and other financial institutions worldwide. We compete for both investors in our funds and attractive investment opportunities

based on a number of factors, including investment performance, brand recognition, business reputation, pricing, innovation, the quality of services we provide to the investors in our funds, the range of products we offer, and our ability to attract and retain qualified professionals in all aspects of our business while managing our operating costs. We face competitors that are larger than we are and have greater financial, technical and marketing resources. Certain of our competitors may continue to raise capital to pursue investment strategies that may be similar to ours, which may create additional competition for investment opportunities. In addition, some of these competitors may have higher risk tolerances or make different risk assessments than we do, or may have lower return thresholds, allowing them to consider a wider variety of investments and establish broader networks of business relationships. They may also be subject to different regulatory requirements, which may give them greater flexibility to pursue investment opportunities or attract new capital to their funds. For additional information regarding the competitive risks that we face, see “Item 1A. Risk Factors—Risks Related to Our Business—Competitive pressures in the asset management business could materially adversely affect our business, financial condition or results of operations.”

Competitive Strengths

Our business was built on certain fundamental elements that we believe are differentiating competitive strengths. They continue to define Och-Ziff today. As such, we view these elements as important to our ability to retain and attract new assets under management and, over time, increase our market share of new capital flows to the alternative asset management industry.

- *Alignment of interests.* We structure our business to align our executive managing directors’ and employees’ interests with those of the investors in our funds and our Class A Shareholders. Investments by our executive managing directors, employees and certain other related parties in our funds collectively comprised approximately \$2.4 billion of our total assets under management as of January 1, 2017. Additionally, our executive managing directors have a 63.4% direct equity ownership interest in the firm through their ownership of Och-Ziff Operating Group A Units and Class A Shares, and receive distributions that are directly tied to the firm’s profitability. Our 79 managing directors have a compensation structure that includes receiving a portion of any bonus compensation in equity that vests over time.
- *One-firm philosophy.* Our “one-firm” philosophy creates a collaborative environment that encourages internal cooperation and the sharing of information, industry expertise and transaction experience gained over our history spanning over 20 years. We are a global organization and have fostered a culture that allows us to allocate capital and evaluate investment opportunities on a firm-wide basis, focusing on the best ideas and opportunities available. This collaborative approach emphasizes the success of our firm as a whole.
- *Synergies among investment strategies.* Our funds invest across a broad range of asset classes and geographies. Our investment professionals have extensive experience and many are specialized by strategy, industry sector or asset class. Our one-firm culture and collaborative approach encourage investment professionals to leverage the experience of our global investment teams across strategies and geographies. This creates synergies that add to our market insight, enhance our due diligence efforts, and improve our ability to identify attractive investment opportunities.
- *Global presence.* Our ability to opportunistically invest worldwide is an important element of diversifying our portfolios and managing risk. Our investment professionals operate from our various offices globally and have a long history of investing on an international scale.
- *Experience.* We have a history of hiring highly talented and experienced employees across all areas of our business, and developing them into senior roles as managing directors and executive managing directors. The depth and breadth of experience of our senior management team enables us to source, structure, execute and monitor a broad range of investments worldwide.
- *Focus on infrastructure.* Since our firm’s inception, we have focused on building a robust infrastructure with an emphasis on strong financial, operational and compliance-related controls. As of December 31, 2016, of the firm’s 102 active executive managing directors and managing directors, 34 are dedicated to our global infrastructure, reinforcing our commitment to this important part of our business. As a public company, we are required to identify and document key processes and controls, which are subject to independent review. Additionally, we have added a number of independent, third-party processes to our fund operations that provide independent information to our fund investors.

- *Transparency.* We believe that our fund investors should be provided with qualitative and quantitative information about our investment process, operational procedures and portfolio exposures in order to understand and evaluate our investment performance. We provide our fund investors with comprehensive reporting about each portfolio on a regular basis, and our senior management team and portfolio managers regularly meet with them to address their questions.

Our Structure

Och-Ziff Capital Management Group LLC

Och-Ziff Capital Management Group LLC is a publicly traded holding company, and its primary assets are ownership interests in the Och-Ziff Operating Group entities, which are held indirectly through two intermediate holding companies, Och-Ziff Corp and Och-Ziff Holding. We conduct our business through the Och-Ziff Operating Group.

Och-Ziff Capital Management Group LLC currently has two classes of shares outstanding: Class A Shares and Class B Shares.

Class A Shares. Class A Shares represent Class A limited liability company interests in Och-Ziff Capital Management Group LLC. The holders of Class A Shares are entitled to one vote per share held of record on all matters submitted to a vote of our shareholders and, as of December 31, 2016, represent 38.3% of our total combined voting power. The holders of Class A Shares are entitled to any distribution declared by our Board of Directors out of funds legally available, subject to any statutory or contractual restrictions on the payment of distributions and to any restrictions on the payment of distributions imposed by the terms of any outstanding preferred shares we may issue in the future. Additional Class A Shares are issuable upon exchange of Och-Ziff Operating Group A Units by our executive managing directors, as described below, and upon vesting of equity awards granted under our Amended and Restated 2007 Equity Incentive Plan or 2013 Incentive Plan.

Class B Shares. Class B Shares have no economic rights and are not publicly traded, but rather entitle the holders of record to one vote per share on all matters submitted to a vote of our shareholders. The Class B Shares are held solely by our executive managing directors and provide them with a voting interest in Och-Ziff Capital Management Group LLC commensurate with their economic interest in our business in the form of Och-Ziff Operating Group A Units. Each executive managing director holding Och-Ziff Operating Group A Units holds an equal number of Class B Shares. Upon a grant of Och-Ziff Operating Group A Units to an executive managing director, an equal number of Class B Shares is also granted to such executive managing director. Upon the exchange by an executive managing director of an Och-Ziff Operating Group A Unit for a Class A Share as further discussed below, the corresponding Class B Share is canceled.

As of December 31, 2016, the Class B Shares represent 61.7% of our total combined voting power. Our executive managing directors have granted an irrevocable proxy to vote all of their Class B Shares to the Class B Shareholder Committee, the sole member of which is currently Mr. Och, as it may determine in its sole discretion. This proxy will terminate upon the later of (i) Mr. Och's withdrawal, death or disability, or (ii) such time as our executive managing directors hold less than 40% of our total combined voting power. As a result, Mr. Och is currently able to control all matters requiring the approval of our shareholders.

Och-Ziff Operating Group Entities

We conduct our business through the Och-Ziff Operating Group. Historically, we have used more than one Och-Ziff Operating Group entity to segregate our operations for business, financial, tax and other reasons. We may increase or decrease the number of our Och-Ziff Operating Group entities and intermediate holding companies based on our views as to the appropriate balance between administrative convenience and business, financial, tax and other considerations.

The Och-Ziff Operating Group currently consists of OZ Management, OZ Advisors I and OZ Advisors II. All of our interests in OZ Management and OZ Advisors I are held through Och-Ziff Corp. All of our interests in OZ Advisors II are held through Och-Ziff Holding. Each intermediate holding company is the sole general partner of the applicable Och-Ziff Operating Group entity and, therefore, generally controls the business and affairs of such entity. All of the equity interests in the Och-Ziff Operating Group are represented by Och-Ziff Operating Group A Units and Och-Ziff Operating Group B Units.

The Och-Ziff Operating Group A Units and Och-Ziff Operating Group B Units have no preference or priority over other securities of the Och-Ziff Operating Group (other than the Och-Ziff Operating Group D Units to the extent described below) and, upon liquidation, dissolution or winding up, will be entitled to any assets remaining after payment of all debts and liabilities of the Och-Ziff Operating Group (together with the Och-Ziff Operating Group D Units to the extent described below).

Och-Ziff Operating Group A Units. Our executive managing directors own 100% of the Och-Ziff Operating Group A Units, which as of December 31, 2016, represent a 61.7% equity interest in the Och-Ziff Operating Group. Och-Ziff Operating Group A Units are exchangeable for our Class A Shares at the discretion of the Exchange Committee (which consists of the members of the Partner Management Committee), on a one-for-one basis, subject to minimum retained ownership and vesting requirements by our executive managing directors and certain exchange rate adjustments for splits, unit distributions and reclassifications.

Och-Ziff Operating Group B Units. Each intermediate holding company holds a general partner interest and Och-Ziff Operating Group B Units in each Och-Ziff Operating Group entity that it controls. Our intermediate holding companies own 100% of the Och-Ziff Operating Group B Units, which, as of December 31, 2016, represent a 38.3% equity interest in the Och-Ziff Operating Group. The Och-Ziff Operating Group B Units are economically identical to the Och-Ziff Operating Group A Units held by our executive managing directors and represent common equity interests in our business, but are not exchangeable for Class A Shares and are not subject to vesting, forfeiture or minimum retained ownership requirements.

Och-Ziff Operating Group D Units. We issue Och-Ziff Operating Group D Units in connection with performance-related grants to executive managing directors. The Och-Ziff Operating Group D Units are non-equity, limited partner profits interests that are only entitled to share in residual assets upon liquidation, dissolution or winding up, and become eligible to participate in any exchange right or tag along right in a change of control transaction to the extent that there has been a threshold amount of appreciation. The Och-Ziff Operating Group D Units convert into Och-Ziff Operating Group A Units to the extent we determine that they have become economically equivalent to Och-Ziff Operating Group A Units. Allocations to these interests are recorded within compensation and benefits in our consolidated statements of comprehensive income (loss).

Och-Ziff Operating Group P Units. On March 1, 2017, we issued Och-Ziff Operating Group P Units to certain executive managing directors to incentivize these executive managing directors for their services, contributions and leadership and to ensure the future continuity of the Company while further strengthening alignment with the Company's fund investors and shareholders. Och-Ziff Operating Group P Units entitle holders to receive distributions of future profits of the Och-Ziff Operating Group and each Och-Ziff Operating Group P Unit becomes exchangeable for one Class A Share (or the cash equivalent), in each case upon satisfaction of certain service and performance conditions. The terms of the Och-Ziff Operating Group P Units may be varied for certain executive managing directors.

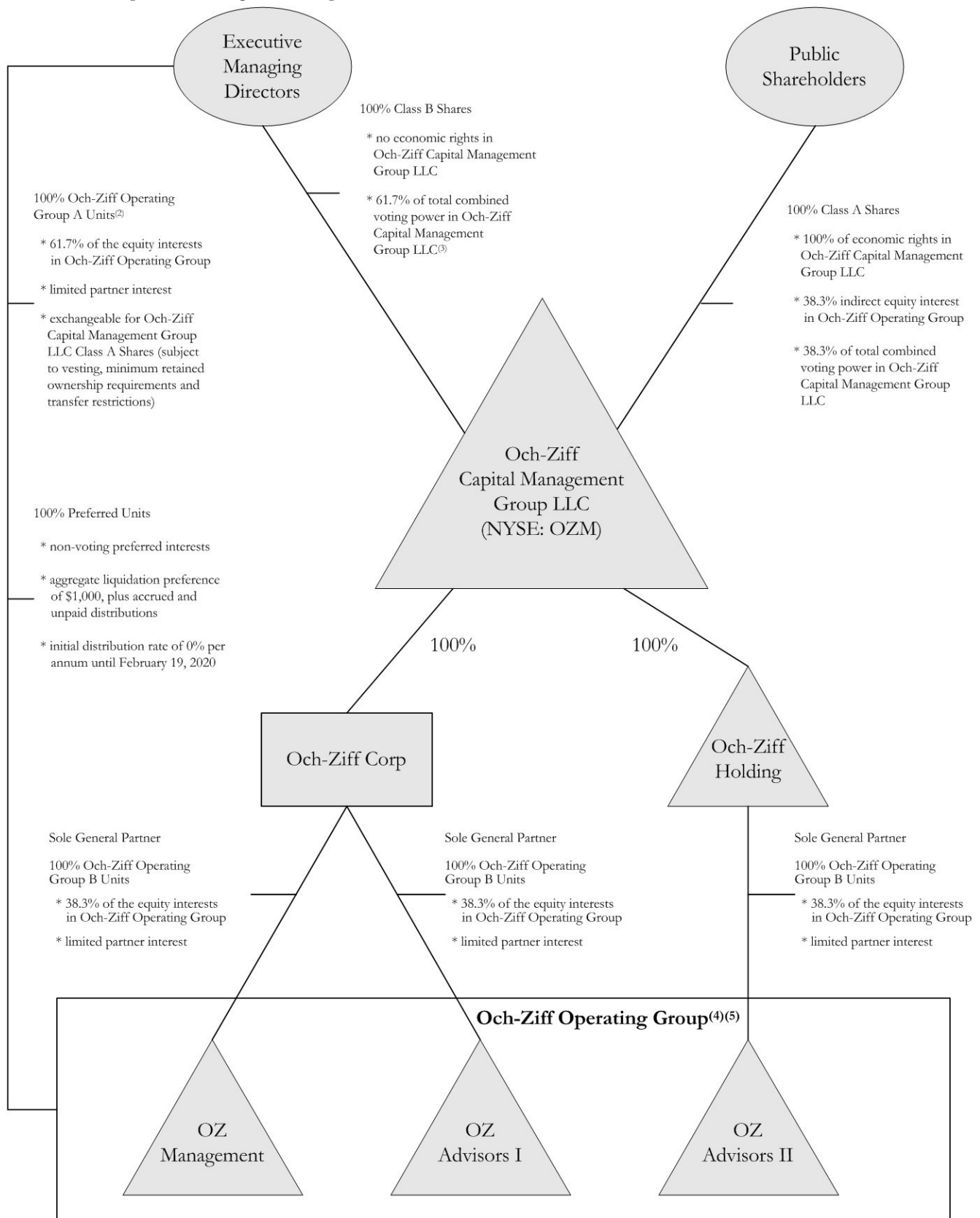
See Note 19 to our consolidated financial statements included in this report for additional information regarding the terms of the Och-Ziff Operating Group P Units.

Preferred Units. Preferred Units represent ownership interests in each of the Och-Ziff Operating Group entities and are held by certain executive managing directors of the Company (the “EMD Purchasers”). Preferred Units are a class of non-voting preferred equity interests in the Och-Ziff Operating Group entities with an aggregate liquidation preference of \$1,000, plus accrued and unpaid distributions.

Pursuant to the terms of the Preferred Units, distributions on the Preferred Units are payable on the liquidation preference amount on a cumulative basis at an initial distribution rate of 0% per annum until February 19, 2020 (the “Step Up Date”), after which the distribution rate will increase in stages thereafter to a maximum of 10% per annum on and after the eighth anniversary of the Step Up Date. In addition, following the occurrence of a change of control event, the Och-Ziff Operating Group entities will redeem the Preferred Units at a redemption price equal to the liquidation preference plus all accumulated but unpaid distributions. For so long as the Och-Ziff Operating Group entities do not redeem all of the outstanding Preferred Units, the distribution rate will increase by 7% per annum, beginning on the 31st day following such change in control. Pursuant to the terms of the Preferred Units, the Och-Ziff Operating Group entities will not be required to effect such redemption until the earlier of (i) 91 days after the maturity date of our revolving credit facility and (ii) the payment in full of all

loans and other obligations and the termination of all commitments thereunder. See Note 11 to our consolidated financial statements included in this report for additional information regarding the terms of the Preferred Units.

The diagram below depicts our organizational structure as of December 31, 2016⁽¹⁾:



-
- (1) This diagram does not give effect to 11,367,733 Class A restricted share units, or “RSUs,” that were outstanding as of December 31, 2016, and were granted to our executive managing directors, managing directors, other employees and the independent members of our Board of Directors.
 - (2) Mr. Och and the other executive managing directors hold Och-Ziff Operating Group A Units representing 32.6% and 29.1%, respectively, of the equity in the Och-Ziff Operating Group, excluding the 8,602,615 Class A Shares collectively owned directly by Mr. Och and certain other executive managing directors. Our executive managing directors also hold Class C Non-Equity Interests and Och-Ziff Operating Group D Units as described below in notes (4) and (5).
 - (3) Mr. Och holds Class B Shares representing 32.6% of the voting power of our Company and the other executive managing directors hold Class B Shares representing 29.1% of the voting power of our Company. Our executive managing directors have granted an irrevocable proxy to vote all of their Class B Shares to the Class B Shareholder Committee, the sole member of which is currently Mr. Och, as it may determine in its sole discretion. In addition, Mr. Och controls an additional 0.4% of our total combined voting power through his direct ownership of 1,957,071 Class A Shares.
 - (4) Not presented in the diagram above are Class C Non-Equity Interests, which are non-equity interests in the Och-Ziff Operating Group entities. No holder of Class C Non-Equity Interests will have any right to receive distributions on such interests. Our executive managing directors hold all of the Class C Non-Equity Interests, which may be used for discretionary income allocations, including the cash element of any discretionary annual performance awards paid to our executive managing directors. References to bonuses throughout this annual report include any Class C Non-Equity Interests distributions.
 - (5) Not presented in the diagram above are Och-Ziff Operating Group D Units, which represent an approximately 5.0% profits interest in the Och-Ziff Operating Group, and are not considered equity interests for GAAP purposes. Our executive managing directors hold all of the Och-Ziff Operating Group D Units. Also not presented in the diagram above are Och-Ziff Operating Group P Units issued subsequent to December 31, 2016. Our executive managing directors hold all of the Och-Ziff Operating Group P Units.

Profit Sharing Interests (PSIs)

Beginning in 2016, we began to provide profit sharing interests (“PSIs”) to new executive managing directors upon their admission as partners to the Och-Ziff Operating Group entities. PSIs are non-equity, limited partner profits interests in the Och-Ziff Operating Group that participate in distributions of future profits of the Och-Ziff Operating Group on a pro rata basis with the Och-Ziff Operating Group A, B and D Units and may share in residual assets upon liquidation, dissolution or winding up to the extent that there has been a threshold amount of appreciation subsequent to issuance of the PSIs. Subject to the discretion of the Chairman of the Partner Management Committee (the “PMC Chairman”), distributions on the PSIs are made in a combination of cash, Och-Ziff Operating Group D Units and deferred cash interests (“DCIs”), which are discussed in further detail below. PSIs are subject to forfeiture upon the departure of an executive managing director, and the number of PSIs held by an executive managing director can be increased or decreased each year at the PMC Chairman’s discretion.

Deferred Cash Interests (DCIs)

DCIs are granted pursuant to the Och-Ziff Deferred Cash Interest Plan (the “DCI Plan”), which was adopted on February 27, 2017. DCIs reflect notional Och-Ziff fund investments made by the Company on behalf of an executive managing director. DCIs generally vest in three equal portions over three years commencing on January 1st of the calendar year following the applicable grant date, subject to an executive managing director's continued service. Upon vesting, the Company pays the 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 DCI Plan or in an award agreement, in the event of a termination of the executive managing director's service, any portion of the DCIs that are unvested as of the date of termination will be forfeited.

Our Fund Structures

Our funds are typically organized using a “master-feeder” structure. This structure is commonly used in the hedge fund industry and calls for the establishment of one or more U.S. or non-U.S. “feeder” funds, which are managed by us but are separate legal entities and have different structures and operations designed for distinct groups of investors. Fund investors, including our executive managing directors, employees and other related parties, invest directly into our feeder funds. These feeder funds hold direct or indirect interests in a “master” fund that, together with its subsidiaries, is the primary investment vehicle for its feeder funds.

We also organize certain funds (e.g., our real estate funds and certain opportunistic credit funds) without the use of a master-feeder structure. Finally, the CLOs we manage are collateralized financing vehicles that issue notes to investors and use those proceeds to acquire various types of credit-related investments that serve as collateral for the notes. Senior notes issued by these vehicles make periodic payments based on a stated interest rate, while the most subordinated notes have no stated interest

rate but receive periodic payments from excess cash flows remaining after periodic payments have been made to the other notes and for fees and expenses due.

All of our funds are managed by the Och-Ziff Operating Group. Any of our existing or future funds may invest using any alternative structure that is deemed useful or appropriate.

Employees

As of December 31, 2016, our worldwide headcount was 524 (including 65 in the United Kingdom and 37 in Asia), with 156 investment professionals (including 38 in the United Kingdom and 16 in Asia). As of this date, we had 23 active executive managing directors and 79 managing directors.

Regulatory Matters

Our business is subject to extensive regulation, including periodic examinations and regulatory investigations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Since 1999, we have been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended, which we refer to as the “Advisers Act.” We are also a company subject to the registration and reporting provisions of the Exchange Act, and therefore subject to regulation and oversight by the SEC. As a company with a class of securities listed on the NYSE, we are subject to the rules and regulations of the NYSE. In addition, we are subject to regulation by the Department of Labor under the U.S. Employee Retirement Income Security Act of 1974, which we refer to as “ERISA.” As a registered commodity pool operator and a registered commodity trading advisor, we are subject to regulation and oversight by the Commodity Futures Trading Commission, which we refer to as the “CFTC.” We are also subject to regulation and oversight by the National Futures Association in the U.S., as well as other regulatory bodies.

Our European and Asian operations, and our investment activities around the globe, are subject to a variety of regulatory regimes that vary country by country, including the U.K. Financial Conduct Authority, the Securities and Futures Commission in Hong Kong and the Securities and Exchange Board of India. Currently, governmental authorities in the United States and in the other countries in which we operate have proposed additional disclosure requirements and regulation of hedge funds and other alternative asset managers.

See “Item 1A. Risk Factors—Risks Related to Our Business—Extensive regulation of our business affects our activities and creates the potential for significant liabilities and penalties. Our reputation, business, financial condition or results of operations could be materially affected by regulatory issues,” “—Increased regulatory focus in the United States could result in additional burdens on our business” and “—Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.”

Global Compliance Program

We have implemented a global compliance program to address the legal and regulatory requirements that apply to our company-wide operations. We have structured our global compliance program to address the requirements of each of our regulators, as described above, as well as the requirements necessary to support our global securities, commodities and loan trading operations.

Our compliance program includes comprehensive policies and supervisory procedures that have been designed and implemented to monitor compliance with these requirements. All employees attend mandatory annual compliance training to remain informed of our policies and procedures related to matters such as the handling of material non-public information, conflicts of interest and employee securities trading. Annual training specifically targeted at ensuring the understanding of and compliance with the Foreign Corrupt Practices Act (the “FCPA”) and, as applicable, other foreign anti-corruption laws and regulations is mandatory for employees and executives responsible for structuring, supervising, ensuring compliance of and executing accounting functions for private deals, as well as for employees who interact with or provide reporting to investors. In addition to a robust internal compliance framework, we have strong relationships with a global network of local attorneys specializing in compliance matters to help us quickly identify regulatory changes and address compliance issues as they arise.

Our Executive Officers

Set forth below is certain information regarding our executive officers as of the date of this filing.

Daniel S. Och, 56, is the founder of the Och-Ziff Capital Management Group. Mr. Och serves as Och-Ziff's Chief Executive Officer and Chairman of the Board of Directors and the Partner Management Committee. Prior to founding Och-Ziff in 1994, Mr. Och spent eleven years at Goldman, Sachs & Co. He began his career in the Risk Arbitrage Department, and later responsibilities included Head of Proprietary Trading in the Equities Division and Co-Head of U.S. Equities Trading. Mr. Och holds a B.S. in Finance from the Wharton School of the University of Pennsylvania.

Alesia J. Haas, 40, is Chief Financial Officer and a member of the Partner Management Committee. Prior to joining Och-Ziff in 2016, Ms. Haas was the Chief Financial Officer and Head of Strategy for OneWest Bank. Prior to that, she spent time in senior finance, investment and strategy roles at Merrill Lynch, General Electric, and Infinity Point. Ms. Haas holds a B.S. from California Polytechnic State University.

David Windreich, 59, is Co-Chief Investment Officer of Och-Ziff and a member of Och-Ziff's Board of Directors and Partner Management Committee. Prior to joining Och-Ziff at its inception in 1994, Mr. Windreich was a Vice President in the Equity Derivatives Department of Goldman, Sachs & Co. He began his career at Goldman, Sachs & Co. in 1983 and became a Vice President in 1988. Mr. Windreich holds both a B.A. in Economics and an M.B.A. in Finance from the University of California, Los Angeles.

Zoltan Varga, 43, is Head of Asian Investing for Och-Ziff, is a member of Och Ziff's Partner Management Committee and helps manage Och-Ziff's Hong Kong office. Prior to joining Och-Ziff in 1998, Mr. Varga was with Goldman, Sachs & Co. as an Investment Banking Analyst in the Mergers and Acquisitions Department. Mr. Varga holds a B.A. in Economics from DePauw University.

Harold A. Kelly, 53, is Head of Global Convertible and Derivative Arbitrage for Och-Ziff and is a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 1995, Mr. Kelly spent seven years trading various financial instruments and held positions at Cargill Financial Services Corporation, Eagle Capital Management, Merrill Lynch International, Ltd. and Buchanan Partners, Ltd. Mr. Kelly holds a B.B.A. in Finance and also holds an M.B.A. and a Ph.D. in Business Administration from The University of Georgia.

James S. Levin, 34, is Co-Chief Investment Officer and Head of Global Credit for Och-Ziff, and a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 2006, Mr. Levin was an Associate at Dune Capital Management LP. Prior to that, Mr. Levin was an analyst at Sagamore Hill Capital Management, L.P. Mr. Levin holds a B.A. in Computer Science from Harvard University.

Wayne Cohen, 42, is President and Chief Operating Officer of Och-Ziff and is a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 2005, Mr. Cohen was an Associate at Schulte Roth & Zabel. Mr. Cohen holds a B.A. in International Relations from Tulane University and a J.D. from New York University School of Law.

David M. Levine, 49, is Chief Legal Officer of Och-Ziff and is a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 2017, Mr. Levine spent 15 years at Deutsche Bank in various positions with increasing responsibilities, most recently, Global Head of Litigation and Regulatory Enforcement. Prior to that, he spent eight years in various roles at the SEC including as Chief of Staff. Mr. Levine holds a B.S. from the State University of New York at Albany and a J.D. from Hofstra University.

Item 1A. Risk Factors

Risks Related to Our Business

In the course of conducting our business operations, we are exposed to a variety of risks that are inherent to or otherwise impact the alternative asset management business. Any of the risk factors we describe below have affected or could materially adversely affect our business, results of operations, financial condition and liquidity. The market price of our Class A Shares could decline, possibly significantly or permanently, if one or more of these risks and uncertainties occur. Certain statements in "Risk Factors" are forward-looking statements. See "Forward-Looking Statements."

Difficult global market, economic or geopolitical conditions may materially adversely affect our business and cause significant volatility in equity and debt prices, interest rates, exchange rates, commodity prices and credit spreads. These factors can materially adversely affect our business in many ways, including by reducing the value or performance of the investments made by our funds and by reducing the ability of our funds to raise or deploy capital, each of which could materially adversely affect our financial condition and results of operations.

The success and growth of our business are highly dependent upon conditions in the global financial markets and economic and geopolitical conditions throughout the world that are outside of our control and difficult to predict. Factors such as equity prices, equity market volatility, asset or market correlations, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulation (including laws relating to the financial markets generally or the taxation or regulation of the hedge fund industry), trade barriers, commodity prices, currency exchange rates and controls, and national and international political circumstances (including governmental instability or dysfunction, wars, terrorist acts or security operations) can have a material impact on the value of our funds' portfolio investments or our general ability to conduct business. Difficult market, economic and geopolitical conditions can negatively impact those valuations and our ability to conduct business, which in turn would reduce or even eliminate our revenues and profitability, thereby having a material adverse effect on our business, financial condition or results of operations.

As a global alternative asset manager, we seek to generate consistent, positive, absolute returns across all market cycles for the investors in our funds. Our ability to do this has been, and in the future may be, materially impacted by conditions in the global financial markets and economic and geopolitical conditions worldwide. For example, the financial crisis that began in the second half of 2008 resulted in significant global market turbulence, a lack of liquidity and substantial declines in the values of most asset classes worldwide, and had an adverse impact on the hedge fund industry, which experienced significant losses in assets under management. While these conditions have generally stabilized and improved since the first quarter of 2009, adverse conditions directly or indirectly resulting from the crisis continue to persist. Recently, markets have been affected by a weak global economy, increases in interest rates in the U.S., concerns of China's slowing economy, fluctuations in currency exchange rates (including a strengthening U.S. dollar), falling oil prices, growing debt loads for certain countries and uncertainty about the consequences of the U.S. and other governments withdrawing monetary stimulus measures. Global financial markets have experienced considerable volatility in the valuations of equity and debt securities, a contraction in the availability of credit and an increase in the cost of financing. Moreover, the recent U.S. Presidential election and United Kingdom ("UK") "Brexit" referendum have fostered a climate of increased uncertainty and introduced new economic and geopolitical risks with potentially significant implications for global financial markets.

Interest rates have been at historically low levels for the last few years. However, in December 2015, the Federal Reserve raised its benchmark interest rate by a quarter of a percentage point, and in December 2016 the Federal Reserve raised interest rates further by one quarter point and indicated it may continue raising interest rates in the coming twelve months. Interest rates could have an adverse impact on our business, financial condition or results of operations.

Unpredictable or unstable market, economic or geopolitical conditions have resulted and may in the future result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and make it more difficult to exit and realize value from our existing investments, which could materially adversely affect our ability to raise new funds and increase our assets under management and, therefore, may have a material adverse effect on our business, financial condition or results of operations. In addition, during such periods, financing and merger and acquisition activity may be greatly reduced, making it harder and more competitive for asset managers to find suitable investment opportunities and to obtain funding for such opportunities. If we fail to react appropriately to difficult market, economic and geopolitical conditions, our funds could incur material losses.

Potential impact of the United Kingdom's vote to leave the European Union.

On June 23, 2016, the UK held a referendum in which voters approved an exit from the European Union (the "EU"), commonly referred to as "Brexit." It is expected that the British government will trigger Article 50 and the two-year notification period by the end of March 2017 and a period of negotiation between the EU and the UK will then follow. The timing and the outcome of the negotiations between the EU and the UK in connection with Brexit are both highly uncertain and information regarding the long-term consequences of the UK's withdrawal is expected to become clearer over time. The announcement of Brexit caused significant volatility in global financial and foreign exchange markets, including volatility in the value of the Euro and the British Pound, which may impair the investment performance of our funds. In addition, Brexit could lead to political, legal and economic uncertainty and potentially divergent national laws and regulations, particularly from a tax perspective, as the UK determines which EU laws to replace or replicate. Changes made by the UK to its domestic or international tax system and

its implementation after the UK has withdrawn from the EU could have a material adverse effect on our business, financial condition or results of operations.

An investment in our Class A Shares is not an alternative to an investment in any of our funds, and the returns of our funds should not be considered as indicative of any returns expected on our Class A Shares, although poor investment performance of, or lack of capital flows into, the funds we manage could have a materially adverse impact on our revenues and, therefore, the returns on our Class A Shares.

The returns on our Class A Shares are not directly linked to the historical or future performance of the funds we manage or the manager of those funds. Even if our funds experience positive performance and our assets under management increase, holders of our Class A Shares may not experience a corresponding positive return on their Class A Shares.

However, poor performance of the funds we manage will cause a decline in our revenues from such funds, and may therefore have a negative effect on our performance and the returns on our Class A Shares. If we fail to meet the expectations of our fund investors or otherwise experience poor investment performance, whether due to difficult economic and financial conditions or otherwise, our ability to retain existing assets under management and attract new investors and capital flows could be materially adversely affected. In turn, the management fees and incentive income that we would earn would be reduced and our business, financial condition or results of operations would suffer, thus negatively impacting the price of our Class A Shares. Furthermore, even if the investment performance of our funds is positive, our business, financial condition or results of operations and the price of our Class A Shares could be materially adversely affected if we are unable to attract and retain additional assets under management consistent with our past experience, industry trends or investor and market expectations.

Investors in our funds have the right to redeem their investments in our funds on a regular basis and could redeem a significant amount of assets under management during any given quarterly period, which would result in significantly decreased revenues.

Subject to any specific redemption provisions applicable to a fund, investors in our multi-strategy hedge funds may generally redeem their investments in our funds on an annual or quarterly basis following the expiration of a specified period of time (typically between one and three years), although certain investors generally may redeem capital during such specified period upon the payment of a redemption fee and upon giving proper notice. In a declining market, during periods when the hedge fund industry generally experiences outflows, or in response to specific events that occur at the Company, we could experience increased redemptions and a consequent reduction in our assets under management. Recently, our assets under management have declined and we believe this trend will likely continue to some extent for some period of time following the settlement of the FCPA investigation as described in Note 17 to our consolidated financial statements. Furthermore, investors in our funds may also invest in funds managed by other alternative asset managers that have restricted or suspended redemptions or may in the future do so. Such investors may redeem capital from our funds, even if our performance is superior to such other alternative asset managers' performance if they are restricted or prevented from redeeming capital from those other managers.

The decrease in revenues that would result from significant redemptions in our funds could have a material adverse effect on our business, financial condition or results of operations. During 2016, we experienced redemptions of approximately \$9.6 billion from our funds. We may continue to experience elevated redemption levels and, if economic and market conditions remain uncertain or worsen, we may once again experience significant redemptions.

Our business, financial condition or results of operations may be materially adversely impacted by the highly variable nature of our revenues, results of operations and cash flows. In a typical year, a substantial portion of our incentive income and all of our annual discretionary bonus expense is determined and recorded in the fourth quarter each year, which means that our interim results are not expected to be indicative of our results for a full year, causing increased volatility in the price of our Class A Shares.

Our revenues are influenced by the combination of the amount of assets under management and the investment performance of our funds. Asset flows, whether inflows or outflows, can be highly variable from month-to-month and quarter-to-quarter. Furthermore, our funds' investment performance, which affects the amount of assets under management and the amount of incentive income we may earn in a given year, can be volatile due to, among other things, general market and economic conditions. Accordingly, our revenues, results of operations and cash flows are all highly variable. This variability is exacerbated during the fourth quarter of each year, primarily due to the fact that a substantial portion of our revenues historically has been

and we expect will continue to be derived from incentive income from our funds. Such incentive income is contingent on the investment performance of the funds as of the relevant commitment period, which generally is as of the end of each calendar year; however, as of December 31, 2016, with respect to 45% of assets under management, the initial commitment period can be three years or longer depending on how the assets are invested. The expiration of these commitment periods may occur on dates other than December 31, which, in certain circumstances, may cause increased volatility in our results. Moreover, in a typical year, we determine the amount of our annual discretionary cash bonus during the fourth quarter based on total annual revenues. Because this bonus is variable and discretionary, it can exacerbate the volatility of our results. We may also experience fluctuations in our results from quarter to quarter due to a number of other factors, including changes in management fees resulting from changes in the management fee rates we charge our fund investors or due to changes in the values of our funds' investments, as well as capital inflows or outflows. Changes in our operating expenses, unexpected business developments and initiatives and, as discussed above, general economic and market conditions may also cause fluctuations in our results from quarter to quarter. Such variability and unpredictability may lead to volatility or declines in the price of our Class A Shares and cause our results for a particular period not to be indicative of our performance in a future period or particularly meaningful as a basis of comparison against results for a prior period.

The amount of incentive income that may be generated by our funds is uncertain until it is actually crystallized. We generally do not record incentive income in our interim financial statements other than incentive income earned (i) as a result of fund investor redemptions during the interim period, (ii) at the end of the three-year commitment period for assets under management subject to a three-year commitment period, (iii) at the end of the commitment period for other assets subject to longer-term commitment periods, or (iv) from tax distributions relating to assets with longer-term commitment periods. As a result of these and other factors, our interim results may not be indicative of historical performance or any results that may be expected for a full year.

In addition, all of our hedge funds have "perpetual high-water marks." This means that if a fund investor experiences losses in a given year, we will not be able to earn incentive income with respect to such investor's investment unless and until our investment performance surpasses the perpetual high-water mark. For example, the incentive income we earn is dependent on the net asset value of each fund investor's investment in the fund. However, failure to earn incentive income as a result of any high-water marks that do arise may adversely impact our business, financial condition or results of operations and our ability to make distributions to our Class A Shareholders. In addition, incentive income distributions from our real estate and certain other funds is subject to clawback obligations generally measured as of the end of the life of a fund, and therefore we defer this revenue until we are no longer required to repay amounts to a fund to the extent we have received excess incentive income distributions during the life of the fund relative to the aggregate performance of the fund. We cannot predict when realization events will occur or whether, upon occurrence, these investments will be profitable.

As a result of quarterly fluctuations in, and the related unpredictability of, our revenues and profits, the price of our Class A Shares can be significantly volatile.

Competitive pressures in the asset management business could materially adversely affect our business, financial condition or results of operations.

The asset management business remains intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service and level of desired information provided to fund investors, brand recognition and business reputation. We compete for fund investors, highly qualified talent, including investment professionals, and for investment opportunities with a number of hedge funds, private equity firms, specialized funds, traditional asset managers, commercial banks, investment banks and other financial institutions.

A number of factors create competitive risks for us:

- We compete in an international arena and, to remain competitive, we may need to further expand our business into new geographic regions or new business areas where our competitors may have a more established presence or greater experience and expertise.
- A number of our competitors have greater financial, technical, marketing and other resources and more personnel than we do.

- Several of our competitors have raised and continue to raise significant amounts of capital, and many of them have or may pursue investment objectives that are similar to ours, which would create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit.
- Some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments that we may want to make.
- Some of our competitors may be subject to less extensive regulation and thus may be better positioned to pursue certain investment objectives and/or be subject to lower expenses related to compliance and regulatory investigations than us.
- Other industry participants will from time to time seek to recruit our active executive managing directors, investment professionals and other professional talent away from us.

We may lose fund investors in the future if we do not match or provide more attractive management fees, incentive income arrangements, structures and terms than those offered by competitors. However, we may experience decreased revenues if we match or provide more attractive management fees, incentive income arrangements, structures and terms offered by competitors. In addition, changes in the global capital markets could diminish the attractiveness of our funds relative to investments in other investment products. This competitive pressure could materially adversely affect our ability to make successful investments and limit our ability to raise future successful funds, either of which would materially adversely impact our business, financial condition or results of operations.

If our investment performance, including the level and consistency of returns or other performance criteria, does not meet the expectations of our fund investors, it will be difficult for our funds to retain or raise capital and for us to grow our business. Additionally, even if our fund performance is strong, it is possible that we will not be able to attract additional capital. Further, the allocation of increasing amounts of capital to alternative investment strategies over the long term by institutional and individual investors may lead to a reduction in profitable investment opportunities, including by driving prices for investments higher and increasing the difficulty of achieving consistent, positive, absolute returns.

Competition for fund investors is based on a variety of factors, including:

- Investment performance.
- Investor liquidity and willingness to invest.
- Investor perception of investment managers' ability, drive, focus and alignment of interest with them.
- Investor perception of robustness of business infrastructure and financial controls.
- Transparency with regard to portfolio composition.
- Investment and risk management processes.
- Quality of service provided to and duration of relationship with investors.
- Business reputation, including the reputation of a firm's investment professionals.
- Level of fees and incentive income charged for services.

If we are not able to compete successfully based on these and other factors, our assets under management, earnings and revenues may be significantly reduced and our business, financial condition or results of operations may be materially adversely affected. Furthermore, if we are forced to compete with other alternative asset managers on the basis of fees, we may not be able to maintain our current management fee and incentive income structures, which drive our revenues and earnings. We have historically competed for fund investors primarily on the investment performance of our funds and our reputation, and not on the level of our fees or incentive income relative to those of our competitors. However, as the alternative asset management sector continues to mature and addresses current market and competitive conditions, there is increasing downward pressure on management fees and a risk that incentive income rates will decline, without regard to the historical performance of a manager. Management fee or incentive income rate reductions on existing or future funds, particularly without corresponding increases in

assets under management or decreases in our operating costs, could materially adversely affect our business, financial condition or results of operations.

In addition to the competitive pressures described above, as we diversify by offering new or enhanced products and investment platforms, the average management fee rate we earn on our assets under management may fall as a result of a larger proportion of our assets under management being invested in products that earn lower management fee rates. For example, our average management fee rate has fallen during the period 2014 to 2016 from 1.46% to 1.22% of weighted-average assets under management. The rate decline was driven primarily by lower assets under management in our multi-strategy funds as a percentage of our total assets under management. Additionally, effective October 1, 2016, we reduced the management fee rate for existing fund investors in virtually all of our multi-strategy assets under management further contributing to the decline in our management fee income. Our average management fee will vary from period to period based on the mix of products that comprise our assets under management.

Even if we are able to compete successfully based on the factors noted above, it is possible we could lose assets under management to our competitors. It is possible that similar circumstances could cause us to experience unusually high redemptions or a decrease in inflows, even if our investment performance and other business attributes are otherwise competitive or superior.

Our indebtedness and Preferred Units may restrict our current and future operations, particularly our ability to respond to certain changes or to take future actions.

On November 20, 2014, OZ Management, as borrower, and certain of our other subsidiaries, as guarantors (collectively, with certain of their respective subsidiaries, the “Och-Ziff Operating Group Credit Parties”), entered into a \$150 million unsecured revolving credit and guaranty agreement which was subsequently amended on December 29, 2015 (as amended, the “Revolving Credit Facility”), with certain financial institutions, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and certain other parties party thereto. On November 20, 2014, Och-Ziff Finance Co. LLC (“Och-Ziff Finance”), an indirect subsidiary of the Company, issued \$400 million in aggregate principal amount of its 4.50% Senior Notes due 2019 (the “Senior Notes”) pursuant to an indenture (as supplemented by a supplemental indenture, the “Indenture”) among Och-Ziff Finance and the Och-Ziff Operating Group entities (excluding Och-Ziff Finance, collectively, the “Senior Notes Guarantors”) and Wilmington Trust, National Association, as trustee. Also, pursuant to a securities purchase agreement, dated September 29, 2016 (the “Purchase Agreement”), the Company completed a \$250.0 million issuance and sale of 250,000 Preferred Units on October 5, 2016, and an additional \$150.0 million issuance and sale of 150,000 Preferred Units on January 23, 2017.

The Revolving Credit Facility provides for a revolving credit facility with a maturity of five years and contains a number of restrictive covenants that collectively impose significant operating and financial restrictions on the Och-Ziff Operating Group Credit Parties, including restrictions that may limit their ability to engage in acts that may be in our long-term best interests.

The restrictions in the Revolving Credit Facility include, among other things, limitations on the ability of the Och-Ziff Operating Group Credit Parties to:

- Incur certain additional indebtedness or issue certain equity interests.
- Create liens.
- Pay dividends or make other restricted payments.
- Merge, consolidate, or sell or otherwise dispose of all or any part of their assets.
- Engage in certain transactions with shareholders or affiliates.
- Engage in substantially different lines of business.
- Amend their organizational documents in a manner materially adverse to the lenders.

Additionally, our Revolving Credit Facility includes two financial maintenance covenants relating to assets under management and an economic income leverage ratio.

The Indenture includes certain covenants, including limitations on Och-Ziff Finance's and the Senior Notes Guarantors' ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease all or substantially all assets.

The Revolving Credit Facility also identifies a number of events that, if they occur or are continuing, would constitute an event of default under this agreement. The events of default include a change of control, which would occur if any person or group, other than certain permitted holders (including, but not limited to, Daniel S. Och, our other executive managing directors, and each of their respective related entities), becomes the beneficial owner, directly or indirectly, of at least 50% (on a fully diluted basis) of the voting interests in the Och-Ziff Operating Group. Similarly, the Indenture provides for customary events of default and, if a change of control repurchase event occurs, Och-Ziff Finance will be required to offer to repurchase the Senior Notes at a price in cash equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date.

The terms of the Preferred Units contain certain operational limitations, a change in control provision and other mandatory repurchase provisions. Without the consent of the holders' committee, which initially consists of Daniel S. Och as sole member, the Operating Group entities, their respective subsidiaries and the other subsidiaries of the Company may not, subject to limited exceptions, sell or otherwise dispose of any businesses, business lines or divisions, or any significant assets thereof. Under the terms of the Preferred Units, the Company, the Operating Group entities, their respective subsidiaries and the Och-Ziff funds are also prohibited from any transaction with any Designated Officer (as defined in the exhibit to the Purchase Agreement), any holder of at least 10% of the outstanding equity of the Company, the Operating Group entities, their respective subsidiaries or their respective affiliates (other than Daniel S. Och or his related parties) other than transactions in the ordinary course of business with any person (other than a Designated Officer) relating to such person's service to any Operating Group entity or consistent with past practice as of the date of the initial closing, including in connection with granting any direct or indirect carry or capital interest in the Och-Ziff funds to such Person, which matters shall be determined by the Company's board of directors or compensation committee.

Pursuant to the terms of the Preferred Units, distributions on the Preferred Units will be payable on the liquidation preference amount on a cumulative basis at an initial distribution rate of 0% per annum until the Step Up Date of February 19, 2020, after which the distribution rate will increase in stages thereafter to a maximum of 10% per annum on and after the eighth anniversary of the Step Up Date. In addition, following the occurrence of a change of control event, the Operating Group entities will redeem the Preferred Units as a redemption price equal to the liquidation preference plus all accumulated but unpaid distributions (collectively, the "liquidation value"). For so long as the Operating Group entities do not redeem all of the outstanding Preferred Units, the distribution rate will increase by 7.00% per annum, beginning on the 31st day following such event. If we do not have sufficient cash to make such distributions or to repurchase the Preferred Units when required, we may be forced to sell assets, borrow additional funds or enter into new debt facilities. No assurance can be given that we would be able to complete such transactions on favorable terms, or at all, or that our borrowing costs would not increase.

A failure by any of the Och-Ziff Operating Group Credit Parties, Och-Ziff Finance or the Senior Notes Guarantors, as applicable, to comply with the covenants and other obligations—or upon the occurrence of other defaults—specified in the Revolving Credit Facility, or the Indenture, as the case may be, could result in an event of default under the Revolving Credit Facility, or the Indenture, as the case may be, which would give the lenders under the Revolving Credit Facility, or the holders of the Senior Notes, the right to declare all indebtedness and other obligations outstanding under the Revolving Credit Facility, if any, or the Senior Notes, as the case may be, together with accrued and unpaid interest and fees, to be immediately due and payable. If the indebtedness outstanding under the Revolving Credit Facility, if any, or the Senior Notes were to be accelerated, the Och-Ziff Operating Group Credit Parties, Och-Ziff Finance or the Senior Notes Guarantors, as applicable, may not have sufficient cash on hand or be able to sell sufficient assets to repay this indebtedness, which may have an immediate material adverse effect on our business, results of operations and financial condition. For more detail about risks relating to any refinancing, repurchasing or repayment of our Revolving Credit Facility and the Senior Notes, see "—Changes in the credit markets may negatively impact our ability to refinance our outstanding indebtedness or our ability to otherwise obtain attractive financing for our business, and may increase the cost of such financing if it is obtained, which would lead to higher interest expense or, with respect to our funds, lower-yielding investments, either of which would decrease our earnings. An increase in our borrowing costs may materially adversely affect our business, financial condition or results of operations." For more detail regarding the Revolving Credit Facility, and Senior Notes, their respective terms and the current status of compliance with the

Revolving Credit Facility by the Och-Ziff Operating Group Credit Parties, please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and “—Debt Obligations.”

Our business and financial condition may be materially adversely impacted by the loss of any of our key executive managing directors, particularly certain members of our Partner Management Committee.

The success of our business depends on the efforts, judgment and personal reputations of our key executive managing directors, particularly certain members of our Partner Management Committee. Our key executive managing directors’ reputations, expertise in investing and risk management, relationships with investors in our funds and third parties on which our funds depend for investment opportunities and financing are each critical elements in operating and expanding our business. The loss of any of these individuals could harm our business and jeopardize our relationships with our fund investors and members of the business community. We believe our performance is highly correlated to the performance of these individuals. Accordingly, the retention of our key executive managing directors is crucial to our success, but none of them is obligated to remain actively involved with us. In addition, if any of our key executive managing directors were to join or form a competitor, some of our fund investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our key executive managing directors could have a material adverse effect on our business, financial condition or results of operations, including on the performance of our funds, our ability to retain and attract fund investors and highly qualified employees and our ability to raise new funds. We do not carry any “key man” insurance that would provide us with proceeds in the event of the death or disability of any of our key executive managing directors.

In addition, investors in most of our funds have one-time special redemption rights that are triggered upon the loss of services of Mr. Och. See “—Most of our funds have special withdrawal provisions pursuant to which the failure of Daniel S. Och to be actively involved in the business provides investors with the right to redeem from such funds. The loss of the services of Mr. Och would have a material adverse effect on each of such funds and on our business, financial condition or results of operations” for additional information. Further, we negotiate other key man provisions in certain of our funds, which could provide for earlier redemption rights, in the event that one or more of certain of our key executive managing directors cease to provide services to such funds. Accordingly, the loss of such key executive managing directors could also result in significant or earlier redemptions from our funds, which could have a material adverse impact on our business, financial condition or results of operations.

Our ability to retain and attract executive managing directors, managing directors and other investment professionals is critical to the success and growth of our business.

Our investment performance and ability to successfully manage and expand our business, including into new geographic areas, is largely dependent on the talents and efforts of highly skilled individuals, including our active executive managing directors, managing directors and other investment professionals. Accordingly, our future success and growth depend on our ability to retain and motivate our active executive managing directors and other key personnel and to strategically recruit, retain and motivate new talent. We may not be successful in our efforts to recruit, retain and motivate the required personnel as the global market for qualified investment professionals is extremely competitive, particularly in cases where we are competing for qualified personnel in geographic or business areas where our competitors have a significantly greater presence or more extensive experience. We compete intensely with businesses both within and outside the alternative asset management industry for highly talented and qualified personnel. Accordingly, in order to retain and attract talent, our total compensation and benefits expense could increase to a level that may materially adversely affect our profitability and reduce our cash available for distribution to our executive managing directors and Class A Shareholders.

It may be difficult for us to retain and motivate our active executive managing directors after their interests in our business are fully vested and they are permitted to exchange their interests for Class A Shares that they can sell. The Och-Ziff Operating Group A Units granted to our executive managing directors who were executive managing directors before our IPO (our “Pre-IPO Partners”) in connection with the Reorganization have now generally become fully vested while the Och-Ziff Operating Group Units granted to our executive managing directors, under our Partner Incentive Plan established in 2012 (the “PIP”) are not subject to vesting. Och-Ziff Operating Group Units otherwise granted to our executive managing directors, including awards granted under our Incentive Program established in 2017 (the “2017 Incentive Program”), continue to vest over time. See Note 19 to our consolidated financial statements included in this report for additional information on the 2017 Incentive Program.

If we are unable to retain the services of any of our active executive managing directors, the loss of their services could have a material adverse effect on our business, financial condition or results of operations, including by harming our ability to maintain or grow assets under management in existing funds or raise additional funds in the future.

In any year where our funds experience losses and we do not earn incentive income, bonuses for that year (and in subsequent years until such losses are recouped) may be significantly reduced. Reduced bonuses, particularly during subsequent years, could have a material adverse impact on our ability to motivate and retain our investment professionals and other employees.

Furthermore, our active executive managing directors and investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have strong relationships with our fund investors. Therefore, if our active executive managing directors or investment professionals join competitors or form competing businesses, we could experience a loss of investment opportunities and existing fund investor relationships, which if significant, would have a material adverse effect on our business, financial condition or results of operations.

The Och-Ziff Operating Group entities' limited partnership agreements and other agreements entered into with our executive managing directors provide that the ownership interests in our business that are held by our executive managing directors are subject to various transfer restrictions and vesting and forfeiture conditions. In addition, the RSUs that have been awarded to our managing directors, certain executive managing directors and certain other employees are also subject to certain vesting and forfeiture requirements. Further, all of our active executive managing directors and managing directors are subject to certain restrictions with respect to competing with us, soliciting our employees and fund investors and disclosing confidential information about our business. These restrictions, however, may not be enforceable in all cases and can be waived by us at any time. There is no guarantee that these requirements and agreements, or the forfeiture provisions of the Och-Ziff Operating Group entities' limited partnership agreements (which are relevant to our executive managing directors) or the agreements we have with our managing directors will prevent any of these professionals from leaving us, joining our competitors or otherwise competing with us. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

Most of our assets under management are in funds that have special withdrawal provisions pursuant to which the failure of Daniel S. Och to be actively involved in the business provides investors with the right to redeem from such funds. The loss of the services of Mr. Och would have a material adverse effect on each of such funds and on our business, financial condition or results of operations.

Most of our assets under management are in funds that give investors a one-time special redemption right (not subject to redemption fees) if Daniel S. Och dies or ceases to perform his duties with respect to the fund for 90 consecutive days or otherwise ceases to be involved in the activities of the Och-Ziff Operating Group. The death or inability of Mr. Och to perform his duties with respect to any of our funds for 90 consecutive days, or termination of Mr. Och's involvement in the activities of the Och-Ziff Operating Group for any reason, could result in substantial redemption requests from investors in certain of our funds. Any such event would have a direct material adverse effect on our revenues and earnings, and would likely harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. Such withdrawals could lead to a liquidation of certain funds and a corresponding elimination of our management fees and potential to earn incentive income. The loss of Mr. Och could, therefore, ultimately have a material adverse effect on our business, financial condition or results of operations, including a loss of substantially all of our revenues and earnings.

We have experienced and may again experience periods of rapid growth and significant declines in assets under management, which place significant demands on our legal, compliance, accounting, risk management, administrative and operational resources.

Rapid changes in our assets under management may impose substantial demands on our legal, compliance, accounting, risk management, administrative and operational infrastructures. The complexity of these demands, and the time and expense required to address them, is a function not simply of the size of the increase or decrease, but also of significant differences in the investing strategies employed within our funds and the time periods during which these changes occur. For example, expanding our product offerings and entering into new lines of business places additional demands on our infrastructure. Furthermore, our

future growth will depend on, among other things, our ability to maintain and develop highly reliable operating platforms, management systems and financial reporting and compliance infrastructures that are also sufficiently flexible to promptly and appropriately address our business needs, applicable legal and regulatory requirements and relevant market and other operating conditions, all of which can change rapidly.

Addressing the matters described above may require us to incur significant additional expenses and to commit additional senior management and operational resources, even if we are experiencing declines in assets under management.

There can be no assurance that we will be able to manage our operations effectively without incurring substantial additional expense or that we will be able to grow our business and assets under management, and any failure to do so could materially adversely affect our ability to generate revenues and control our expenses.

We are highly dependent on information systems and other technology, including those used or maintained by third parties with which we do business. Any failure in any such systems or infrastructure could materially impair our business, financial condition or results of operations.

Our business is highly dependent on information systems and technology. We rely heavily on our financial, accounting, trading, risk management and other data processing and information systems to, among other things, execute, confirm, settle and record a very large number of transactions, which can be highly complex and involve multiple parties across multiple financial markets and geographies, and to facilitate financial reporting and legal and regulatory compliance all in an extremely time-sensitive, efficient and accurate manner. We must continually update these systems to properly support our operations and growth, which creates risks associated with implementing new systems and integrating them into existing ones. We also use and rely upon third-party information systems and technology to perform certain business functions. Such third-party technology may be integrated with our own. Therefore, we face additional significant risks that would arise from the failure, disruption, termination or constraints in the information systems and technology of such third parties, including financial intermediaries such as exchanges and other service providers whose information systems and technology we use. Any of these information systems or technology infrastructures could fail, become disrupted (including by unauthorized security breaches) or otherwise not operate properly or as intended. In addition, our systems are from time to time subject to cyberattacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we take various measures to ensure the integrity of our systems, there can be no assurance that these measures will always provide sufficient protection. If any of these failures occur, particularly those that directly affect our New York headquarters, we could suffer a disruption or cessation in our business operations, an interception of confidential or proprietary information, liability to our funds, regulatory intervention, legal action or reputational damage, any or all of which could materially impair our business, financial condition or results of operations. We could also be significantly affected if the information systems and technology of third parties with whom we conduct business are subject to unauthorized security breaches or other tampering.

We depend on our headquarters in New York and our London and Hong Kong offices, where most of our personnel are located. Although, we have taken important precautions to limit the impact of failures or disruptions in the information systems and technology infrastructures that we use, as well as the impact of physical disruptions to our New York headquarters and London office, these precautions, including our disaster recovery programs, may not be sufficient to adequately mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for any losses, if at all.

We are subject to third-party litigation that could result in significant legal and other liabilities and reputational harm, which could materially adversely affect our business, financial condition or results of operations.

We face significant risks in our business that subject us to third-party litigation and legal liability. In general, we will be exposed to litigation risk in connection with any allegations of misconduct, negligence, dishonesty or bad faith arising from our management of any fund. We may also be subject to litigation arising from investor dissatisfaction with the performance of our funds, including certain losses due to the failure of a particular investment strategy or improper trading activity, if we violate restrictions in our funds' organizational documents or from allegations that we improperly exercised control or influence over companies in which our funds have large investments. In addition, we are exposed to risks of litigation relating to claims that we

have not properly addressed conflicts of interest. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances that could be materially damaging to our reputation and our business. Moreover, in such cases, we would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although we are indemnified by our funds, our rights to indemnification may be challenged. If we are required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, or fail to obtain indemnification from our funds, our business, financial condition or results of operations could be materially adversely affected.

Now that the FCPA investigation has been settled, it is possible that we will be exposed to increased civil litigation risk arising out of the events investigated by the SEC and DOJ as part of the FCPA matter.

It is possible that we would be made a party to any lawsuit involving any of the fund-related litigation described above. As with the funds, while we maintain insurance, there can be no assurance that our insurance will prove to be adequate. If we are required to incur all or a portion of the costs arising out of litigation, our business, financial condition or results of operations could be materially adversely affected. Furthermore, any such litigation could be protracted, expensive and highly damaging to our reputation, which could result in a significant decline in our assets under management and revenues, even if the underlying claims are without merit. In addition, we may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose us to reputational risk and increased risk from countersuits.

Extensive regulation of our business affects our activities and creates the potential for significant liabilities and penalties. Our reputation, business, financial condition or results of operations could be materially affected by regulatory issues.

Our business is subject to extensive and complex regulation, including periodic examinations and regulatory investigations, by governmental and self-regulatory organizations in the jurisdictions in which we operate and trade around the world. As an investment adviser registered under the Advisers Act and a company subject to the registration and reporting provisions of the Exchange Act, we are subject to regulation and oversight by the SEC. As a company with a class of securities listed on the NYSE, we are subject to the rules and regulations of the NYSE. As a registered commodity pool operator and a registered commodity trading advisor, we are subject to regulation and oversight by the United States Commodity Futures Trading Commission (“CFTC”) and the National Futures Association. In addition, we are subject to regulation by the Department of Labor under ERISA. In the UK, our UK sub-adviser is subject to regulation by the UK Financial Conduct Authority. Our Asian operations, and our investment activities around the globe, are subject to a variety of other regulatory regimes that vary country by country, including the Securities and Futures Commission in Hong Kong, and the Securities and Exchange Board of India.

The regulatory bodies with jurisdiction over us have the authority to grant, and in specific circumstances to cancel, permissions to carry on our business and the authority to conduct investigations and administrative proceedings. Such investigations and administrative proceedings can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of an investment adviser from registration or memberships. For example, a failure to comply with the obligations imposed by the Exchange Act or Advisers Act, including recordkeeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or a failure to maintain our funds’ exemption from compliance with the 1940 Act could result in investigations, sanctions and reputational damage, which could adversely affect our business, financial condition or results of operations. Our funds are involved regularly in trading activities that implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation, anti-corruption, including the FCPA, and a broad number of technical trading requirements that implicate fundamental market regulation policies. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing investors or to fail to gain new investors. Furthermore, the legal, technology and other costs associated with regulatory investigations could increase to such a level that they could have a material impact on our business, financial condition or results of operations.

These global financial services regulators affect us not only with their regulations, but also with their examination, inspection and enforcement functions as well. We are routinely subject to examination and inspection and, although we make reasonable efforts to maintain effective compliance programs, there can be no assurances that any such inquiry would not result in a finding or sanction that would adversely affect our business, financial condition or results of operations. Likewise, enforcement

investigations and administrative inquiries can be sweeping in nature. Cooperating with these investigations, as is our practice, can be expensive and time-consuming and could distract us from our business operations. In particular, U.S. regulators routinely investigate potentially serious matters such as possible insider trading, market manipulation, misleading disclosure, conflicts of interest, fraud, foreign corruption, including under the FCPA; lesser potential violations, such as books and records inaccuracies, weaknesses in internal controls; and compliance with general reporting and advertising regulations. For the past several years, we have cooperated with a number of ongoing regulatory investigations and examinations, both domestically and internationally, and we expect to be the subject of investigations and examinations in the future. There can be no assurances that ongoing or future investigations will not adversely affect our business, financial condition or results of operations. Enforcement actions and administrative proceedings can result in fines, or other sanctions, including censure, the issuance of a cease-and-desist order, suspension or expulsion of persons or firms from the industry. Such sanctions can harm our reputation and cause us to lose existing investors or fail to gain new investors, which could adversely affect our business, financial condition or results of operations.

On September 29, 2016, we reached settlements with the DOJ and the SEC, resolving their investigations into our former private investment business in Africa and a 2007 investment by the Libyan Investment Authority in certain of our funds. As part of the settlements, we entered into a Deferred Prosecution Agreement with the DOJ, and our subsidiary, OZ Africa, agreed to plead guilty to one count of conspiracy to violate the anti-bribery provisions of the FCPA. We also agreed to settle an administrative proceeding with the SEC involving violations of the FCPA and the Advisers Act.

Pursuant to the settlement agreements with the regulators, we agreed to pay \$412.1 million in settlement charges and to implement enhanced internal accounting controls and policies, to separate the chief compliance officer from other officer positions, and to engage an independent compliance monitor for three years, subject to early termination or extension. The settlements could have a material adverse effect on our business, financial condition or results of operations as described below in “The FCPA settlements could have a material adverse effect on our ability to raise capital for our funds.”

In addition, we regularly rely on exemptions or exclusions from various requirements of the Securities Act, the Exchange Act, the 1940 Act, the Commodity Exchange Act and ERISA in conducting our asset management activities. These exemptions or exclusions are sometimes highly complex and may, in certain circumstances, depend on compliance by third parties whom we do not control. If for any reason these exemptions or exclusions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our business, financial condition or results of operations could be materially adversely affected. Certain of the requirements imposed under the 1940 Act, the Advisers Act, ERISA and by non-U.S. regulatory authorities are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect holders of our Class A Shares. At any time, the regulations applicable to us may be amended or expanded by the relevant regulatory authorities. If we are unable to correctly interpret and timely comply with any amended or expanded regulatory requirements, our business, financial condition or results of operations could be adversely impacted in a material way.

We may also be adversely affected if additional legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. See “—Increased regulatory focus in the United States could result in additional burdens on our business” and “—Recent regulatory changes in jurisdictions outside the United States could adversely affect our business” for additional information. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with additional new laws or regulations could be difficult and expensive and affect the manner in which we conduct business, and we may be unable to correctly interpret and timely comply with any amended or expanded regulatory requirements, which could have adverse impacts on our business, financial condition or results of operations.

The FCPA settlements could have a material adverse effect on our ability to raise capital for our funds.

As described above under “-Extensive regulation of our business affects our activities and creates the potential for significant liabilities and penalties. Our reputation, business, financial condition or results of operations could be materially affected by regulatory issues,” we recently settled investigations by the SEC and the DOJ concerning violations of the FCPA and other laws, which could have a material adverse effect on our business, financial condition or results of operations. In addition to the financial cost of the settlements, the investigation and settlements may harm our reputation and cause us to lose existing investors or fail to gain new investors, which could further adversely affect our business, financial condition or results of operations. Prior to the settlements, many of our funds raised capital relying on the exemption from registration provided by Rule 506 of Regulation D under the Securities Act (“Rule 506”) in connection with a securities offering structured as a private placement. As a consequence of the settlements, many of our funds are currently disqualified from raising capital using Rule 506 offerings. This could negatively affect our ability to raise capital for these funds, and our ability to offer and sell fund interests to certain investors in certain U.S. states may be impaired. The inability of many of our funds to raise capital in Rule 506 offerings may also result in additional expenses. The potential negative impact of the FCPA settlements on our ability to raise or retain capital for our funds could adversely affect our business, financial condition or results of operations.

Increased regulatory focus in the United States could result in additional burdens on our business.

The financial industry has become more highly regulated. Legislation has been introduced in recent years in the U.S. relating to financial markets and institutions, including alternative asset management firms, which would result in increased oversight and taxation. There has been, and may continue to be, a related increase in regulatory investigations of the trading and other investment activities of alternative investment funds, including our funds. Such investigations may impose additional expenses on us, may require the attention of senior management and may result in fines if any of our funds are deemed to have violated any regulations.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act imposes significant new regulations on the U.S. financial services industry, including aspects of our business and the markets in which we operate.

Title VII of the Dodd-Frank Act (the “Derivatives Title”) imposes a comprehensive regulatory regime on over-the-counter (“OTC”) derivatives and the operations of the markets for, and the activities of the dealers in and users of, OTC derivatives. The Derivatives Title, among other things: (i) could require certain OTC derivatives, including “swaps” (such as rate, credit, equity and commodity swaps) and “security-based swaps” (swaps and security-based swaps, collectively, “Swaps”), to be traded on a regulated exchange and cleared through a regulated clearing entity, potentially increasing significantly the collateral costs associated with such activities; (ii) imposes initial and variation margin requirements on certain entities whose derivatives are not cleared through a regulated clearing entity; (iii) creates several new classes of CFTC and SEC registrants, including “swap dealers,” “security-based swap dealers,” “major swap participants” and “major security-based swap participants,” that are subject to comprehensive regulation, including minimum net capital, margin, disclosure, reporting and recordkeeping requirements, conflicts of interest policies and procedures, new business conduct standards and other regulatory requirements; and (iv) expands the CFTC’s authority to impose speculative position limits with respect to derivative instruments, including Swaps on certain physical commodities (such as Swaps based on oil, gas, precious metals and agricultural commodities) and aggregate position limits for those instruments (including futures and options contracts and other listed instruments that are economically equivalent to such contracts) based on the same underlying physical commodity.

We are and may be directly and indirectly affected by the Derivatives Title and its rules, including but not limited to potential results such as increased clearing and margin costs and decreased liquidity. Although many of the regulations under the Derivative Title have been adopted, certain issues under the Derivatives Title that were to be addressed by the regulators have not yet been addressed in final form. At this time we still cannot fully predict what impact the Derivatives Title will have on us, the funds we manage, our counterparties, the financial services industry or the markets, although we have already seen meaningful impacts on the financial services industry and the markets, both positive and negative.

On December 18, 2014, the Financial Stability Oversight Council (the “Council”) released a notice seeking public comment regarding potential risks to U.S. financial stability from asset management products and activities and on February 4, 2015, the Council approved supplemental procedures for reviewing nonbank financial companies for potential designation as

systematically important financial institutions (“SIFI”). If we or any of our funds were to be designated as a SIFI, or otherwise designated by the Council as presenting systemic risk, we would be subject to limitations on our ability to conduct certain activities, along with increased costs of doing business in the form of fees and assessments associated with such designation as well as by virtue of increased regulatory compliance costs, all of which would be likely to adversely affect our competitive position.

On December 10, 2013, U.S. financial regulators adopted final regulations to implement the statutory mandate of the “Volcker Rule” contained in Section 619 of the Dodd-Frank Act. Under the Volcker Rule, the ability of certain banking entities to acquire as principal, directly or indirectly, ownership interests in certain private investment funds (referred to in the Volcker Rule as “covered funds”) will be limited. As a result, banking entities and their affiliates that would otherwise invest in our funds may choose not to invest in our funds, or to invest less capital in our funds. In addition, banking entities that are invested in our funds may be required to reduce or eliminate such investments due to the requirements of the Volcker Rule. The Volcker Rule also includes a general prohibition on banking entities engaging in activities defined as “proprietary trading.” The effectiveness of the Volcker Rule could negatively impact our business, financial condition or results of operations.

The Dodd-Frank Act also requires increased disclosure of executive compensation and provides shareholders with the right to a non-binding vote on executive compensation. In addition, the Dodd-Frank Act empowers federal regulators to prescribe regulations or guidelines to prohibit any incentive-based payment arrangements that the regulators determine encourage covered financial institutions to take inappropriate risks by providing officers, employees, directors or principal shareholders with excessive compensation or that could lead to a material financial loss by such financial institutions. Until all of the relevant regulations and guidelines have been established, we cannot predict what effect, if any, these developments may have on our business or the markets in which we operate.

Furthermore, the Dodd-Frank Act required the SEC and the CFTC to implement more expansive regulations concerning whistleblowers. The SEC and the CFTC have each adopted rules under this requirement, establishing reward programs for persons who bring information to the SEC or the CFTC. To receive a reward under these programs, the information must lead to the successful enforcement or resolution of a judicial or administrative action brought by the SEC or CFTC that results in a monetary sanction of more than \$1 million for a violation of the securities laws or the Commodity Exchange Act, respectively. While it is too soon to observe the full effect of these rules, they may result in increased regulatory inquiries or investigations by the SEC or the CFTC. Such inquiries or investigations could impose significant additional expense on us, require the attention of senior management and result in negative publicity and harm to our reputation.

Effective September 23, 2013, and pursuant to a mandate under the Dodd-Frank Act, the SEC adopted amendments to Rule 506 that disqualify issuers, such as our funds, from relying on the exemption from registration provided by Rule 506 in connection with a securities offering structured as a private placement if any “covered persons” are deemed to be “bad actors.” Specifically, an issuer generally will be precluded from conducting offerings that rely on the registration exemption provided by Rule 506 if a “covered person” has been subject to a relevant criminal conviction, regulatory or court order or other disqualifying event that occurred on or after September 23, 2013. For these purposes, the “covered persons” of an issuer include directors, certain officers, various entities related to the issuer, solicitors and promoters of the issuer and 20% beneficial owners of the issuer’s voting securities. If any covered person is subject to a disqualifying event, one or more of our funds could lose the ability to raise capital in a Rule 506 offering, which would result in significant additional expenses in connection with such offerings. Many of our funds continuously raise capital in reliance on Rule 506. If one or more of our funds were to lose the ability to rely on the Rule 506 exemption, it could adversely affect our business, financial condition or results of operations.

These and other outstanding rulemakings mandated by the Dodd-Frank Act will be completed by various regulatory bodies and other groups over the next several years, and the Dodd-Frank Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action). As a result of the regulatory and other action yet to be taken, we do not know what the remaining final regulations under the Dodd-Frank Act will require and it is difficult to predict how significantly the Dodd-Frank Act will affect us. The Dodd-Frank Act will likely increase our administrative costs and could impose additional restrictions on our business.

In early February 2017, the new Trump administration issued an executive order calling for a review of laws and regulations affecting the U.S. financial industry in order to determine their consistency with a set of core principles identified in the executive order. Several bills have been introduced in recent years as avenues to amend the Dodd-Frank Act, including the

Financial CHOICE Act (the “CHOICE Act”), which is currently pending in the House of Representatives and the Financial Regulatory Improvement Act of 2015 (“FRIA”), which is currently pending in the Senate. If reintroduced, these bills, while different, could change the process and criteria for designating systemically important financial institutions, modify the Volcker Rule and make reforms to the Consumer Financial Protection Bureau, among other proposals. The CHOICE Act would also significantly enhance the SEC’s enforcement capabilities and increase the maximum civil penalties and criminal sanctions under federal securities laws, including under the Investment Company Act (the “1940 Act”) and the Advisers Act, while the FRIA would change the operations, structure and accountability of the Federal Reserve System.

A number of legislative proposals have been considered by past Congresses that would have characterized some or all of the income recognized from carried interests as ordinary income and would have treated such income as non-qualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes after a transition period or requiring us to restructure our operations to earn such non-qualifying income through taxable subsidiary corporations. In addition, versions of the prior proposals could have, if enacted, (i) prevented us from completing certain types of internal reorganization transactions on a tax-free basis and acquiring other asset management companies on a tax-free basis, (ii) subjected holders of Class A Shares to tax on our conversion into a corporation or restructuring after the transition period, and (iii) increased the portion of any gain realized from the sale or other disposition of a Class A Share that is treated as ordinary income rather than capital gain. Former Representative David Camp, then Chairman of the House Committee on Ways and Means, released a discussion draft of proposed legislation in the past that would have, among other things, prevented us from qualifying for treatment as a partnership and characterized some or all of the income we may earn from carried interests as ordinary income.

The new administration and leaders in Congress have indicated their desire to pursue comprehensive tax reform and the treatment of carried interests in such legislation is unclear. More broadly, Congress and the new administration may consider potentially significant changes to various aspects of the tax law, including the deductibility of certain expenses and tax treatment of certain entities. If the carried interest proposals or former Chairman Camp’s proposal described above were to be enacted into law or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or otherwise impose additional taxes, Class A Shareholders would be negatively affected. We would incur a material increase in our tax liability as a public company from the date any such changes applied to us, which likely would result in a reduction in the value of our Class A Shares.

Risk retention rules could adversely affect our CLO management business.

Effective as of December 24, 2016, “risk retention” rules promulgated by U.S. federal regulators under the Dodd-Frank Act require a “securitizer” or “sponsor” of a CLO to retain directly or through a “majority-owned affiliate” (as defined in the U.S. Risk Retention Rules), in one or more prescribed forms, at least 5% of the credit risk of the securitized assets (the “U.S. Risk Retention Rules”).

The U.S. Risk Retention Rules became effective for CLOs on December 24, 2016 (the “Risk Retention Compliance Date”). Thus, any CLO transaction that issues securities after such Risk Retention Compliance Date (including as a result of “deemed” issuances of securities resulting from refinancing, re-pricings or material amendments) will be required to satisfy the U.S. Risk Retention Rules. An existing CLO that has issued securities prior to the Risk Retention Compliance Date may be structured in a manner intended to facilitate the later refinancing, re-pricing or material amendment thereof in compliance with the U.S. Risk Retention Rules. However, there can be no assurance that any such existing CLO will actually be able to be refinanced, re-priced or materially amended in compliance with the U.S. Risk Retention Rules.

The U.S. Risk Retention Rules have caused, and are expected to continue to cause, significant and potentially adverse changes to the CLO management business generally, and to our business specifically. In addition, the U.S. Risk Retention Rules may also affect our general fund management business, particularly with respect to our managed funds that have historically acquired securities issued by the CLOs we manage. We currently manage a number of CLOs through our indirect wholly-owned subsidiary, Och-Ziff Loan Management LP (the “CLO Manager”), and a number of our managed funds hold interests in the most subordinated class of securities issued by CLOs managed by the CLO Manager. Furthermore, because the CLO Manager has no personnel of its own and the personnel employed by the CLO Manager to perform the CLO Manager’s functions are employees of OZ Management, it is possible that OZ Management rather than the CLO Manager itself may be viewed as the

true “sponsor” of the CLOs managed by the CLO Manager, and accordingly the party required to comply with the U.S. Risk Retention Rules.

In connection with the U.S. Risk Retention Rules, we may seek to retain the requisite risk retention interest directly, through the CLO Manager, or through a majority-owned affiliate. We may also seek to establish a standalone, self-managed collateral manager entity that will manage CLOs and retain the risk retention interest directly or through a majority-owned affiliate. There can be no assurance that applicable regulatory or governmental authorities will agree that any of the approaches we adopt in order to comply with the requirements of the U.S. Risk Retention Rules satisfy such requirements.

Our efforts to undertake compliance with the U.S. Risk Retention Rules are expected to require additional costs and expenses, which may be significant, and are further expected to require tying up capital that could potentially be deployed in another manner in order to generate better risk-adjusted returns. In addition, in the event applicable regulatory or governmental authorities disagree that any of our adopted compliance approaches satisfy the requirements of the U.S. Risk Retention Rules, this may expose us to additional costs and expenses, in addition to potential liability. Furthermore, we may be required to agree to certain undertakings and covenants in connection with complying with the U.S. Risk Retention Rules, breaches of which may cause us to incur liability. To the extent any third party financing is obtained in connection with retaining the requisite risk retention interest, such as through recourse financings as contemplated by the U.S. Risk Retention Rules, the terms of such financing may impose additional limitations or restrictions on our business that could adversely alter the way in our business is operated, reduce the value of our managing CLOs to us and to our shareholders, or otherwise adversely affect our business and operations generally, or the value of our shares. Generally, managing CLOs following the Risk Retention Compliance Date may be less valuable to us and our shareholders relative to managing CLOs prior to the Risk Retention Compliance Date, and we may accordingly be less likely to manage new CLO transactions following the Risk Retention Compliance Date.

The U.S. Risk Retention Rules are subject to varying interpretations, and one or more regulatory or governmental authorities could take positions with respect to the U.S. Risk Retention Rules that conflict with, or are inconsistent with, the U.S. Risk Retention Rules as understood or interpreted by us, the CLO management industry generally, or past or current regulatory or governmental authorities. Available interpretive authority to date addressing the U.S. Risk Retention Rules applicable to CLOs is limited. Accordingly, no assurance can be made that the U.S. Risk Retention Rules, as understood or interpreted by us, by the CLO management industry generally, or by past or current regulatory or governmental authorities, will not be interpreted differently by applicable regulatory or governmental authorities, now or in the future, or that there will not be a change in applicable law or rules and regulations in the future that could adversely affect us or the CLOs we manage, including by making any structural changes undertaken to facilitate compliance with the U.S. Risk Retention Rules obsolete, unnecessarily burdensome or otherwise economically or administratively disadvantageous.

In addition to any potential direct effects on us or the CLOs we manage, the U.S. Risk Retention Rules also may have an adverse effect on the leveraged loan markets or credit markets generally, which may in turn adversely affect the CLOs we manage or our business generally.

No assurance can be given that the U.S. Risk Retention Rules will not have a material adverse effect on our business and operations.

Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.

Similar to the United States, jurisdictions outside the United States in which we operate, in particular Europe, have become subject to further regulation. Governmental regulators and other authorities in Europe have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our business.

The European Directive on Alternative Investment Fund Managers (the “AIFMD”) became effective on July 21, 2011, but with implementation taking place between July 22, 2013 and July 22, 2014. As of January 1, 2017, EU Member States had transposed the AIFMD into their domestic law. The AIFMD is complex and key aspects of it remain subject to further consultation and interpretation.

The AIFMD imposes significant regulatory requirements on alternative investment fund managers (“AIFMs”), operating within the EU, as well as prescribing certain conditions with regard to regulatory standards, cooperation and transparency that will

need to be satisfied for non-EU AIFMs to market alternative investment funds (“AIFs”) into EU Member States. Should any member of our group be treated as an AIFM operating within the EU, AIFMD rules would impose significant additional costs on the operation of our business in the EU and limit our operating flexibility. In any event, in order to market one of our AIFs to investors in the EU, the non-EU investment adviser of that AIF will be required to comply with the marketing conditions in the AIFMD and any additional national restrictions, assuming that national private placement is available. The AIFMD conditions are that the AIFM complies with specific ratification or registration requirements and certain additional transparency requirements requiring disclosures to investors in the AIF and to EU regulators; the AIFM also complies with requirements relating to the acquisition of substantial stakes in EU companies; and the jurisdictions in which the non-EU AIFM and the relevant AIF are organized satisfy certain conditions with regard to regulatory standards, cooperation and transparency.

If AIFMD’s marketing passport is made available to non-EU AIFMs, it is possible that national private placement regimes will be phased out, in which case such persons would, thereafter, need to comply with the AIFMD in full in order to be able to continue to market their AIFs within the EU. Again, such rules could, if they start to apply in full to our business, potentially impose significant additional costs on the operation of our business in the EU and could limit our operating flexibility and our ability to raise funds within the EU. There is also no requirement for EU Member States to make the private placement regimes available to non-EU AIFMs and consequently, individual EU Member States could, theoretically, seek to apply the rules set out in the AIFMD in full to non-EU AIFMs at any time, even before the marketing passport is made available to such non-EU AIFMs.

Separately to AIFMD, the EU is also introducing significant changes to the existing Markets in Financial Instruments Directive, known as “MiFID II.” The original MiFID, which came into force in 2007, is the foundational piece of legislation for financial services firms operating in the EU, including our UK affiliate Och-Ziff Management Europe Limited (“OZME”), which is authorized and regulated in the UK under MiFID. MiFID II is due to come into force with effect from January 2018.

Many of the changes in MiFID II will impose significant new organizational, conduct, governance and reporting requirements on OZME, including new requirements around the receipt of inducements and the use of soft dollars / dealing commissions, enhanced transaction reporting and post-trade transparency requirements, formal telephone taping requirements, and new best execution rules. Further, new rules in MiFID II may restrict the ability of other Och-Ziff entities domiciled outside of the EU (known as “third-country firms”) to provide services to clients domiciled in the EU. Other changes resulting from MiFID II may have an impact (indirectly) on any Och-Ziff entity or client that trades on EU markets or trading venues, or does business with EU-regulated banks or brokers. This may include venue trading requirements for certain categories of shares and derivatives, product banning powers, algorithmic trading restrictions, and enhanced requirements around the provision of direct market access / direct electronic access services.

In addition to the AIFMD and MiFID II, the EU has implemented, or is in the process of implementing a number of measures in response to the financial crisis or as part of an ongoing program of legislative changes. These include, but are not limited to:

- A regulation on short selling and certain aspects of credit default swaps (which restricts uncovered short sales in EU shares, EU sovereign debt and EU sovereign debt-related credit default swaps and imposes new disclosure requirements in respect of net short positions above a specified threshold).
- A regulation on OTC derivatives, central counterparties and trade repositories (which imposes clearing, risk mitigation, margining and trade reporting requirements on OTC derivatives counterparties).
- The Solvency II directive (which applies capital charges on insurers for fund investments).
- Amendments to the existing EU Transparency Directive regime (which includes changes to the regime for the notification of major shareholdings in the EU, by bringing into scope direct and indirect holdings of financial instruments with similar economic effects to shareholdings (as is already the case in the UK) and entitlements to acquire shares whether or not they give a right to physical settlement).
- A new EU market abuse regime, in the form of a new directly applicable Market Abuse Regulation, known as MAR and a directive designed to harmonize criminal sanctions for market abuse (called CSMAO) (which extends the existing market abuse regime to keep up to pace with market developments, to refine the definition of inside

information, to introduce a new offense of “attempted market manipulation” and to strengthen regulatory authorities’ investigative and sanctioning powers).

Each or all of these measures could have direct and indirect effects on our business.

In addition, the UK introduced a tax on “diverted profits,” effective April 1, 2015. The tax requirement remains controversial and, in some parts, unclear as to its operation. According to the UK government’s publications, the rules are intended to counteract “contrived arrangements” to divert profits from the UK by avoiding a UK taxable presence or by other contrived arrangements between connected entities. A 25% rate of tax will apply to diverted profits relating to UK activity, targeting foreign companies that are perceived as exploiting the UK’s permanent establishment rules or creating other tax advantages by using transactions or entities that lack economic substance. Credit will be available in some circumstances for foreign taxes incurred on the same profits. Statements by the UK government indicate that the legislation was not primarily focused on investment funds such as our funds, or non-UK investment managers of such funds such as Och-Ziff. While it is not possible to reach a definitive conclusion that the funds or the management entities will not be affected, we consider there to be sufficiently strong arguments as to why neither our funds nor the management entities should self-report for this tax. It is worth noting in this regard that the UK government is of the view that the tax is not within the terms of the U.S.-UK double taxation treaty, potentially limiting the availability of credit in the U.S., as well as treaty-based dispute resolution procedures.

If third-party investors in our funds exercise their right to remove us as investment manager or general partner of the funds, we would lose the assets under management in such funds, which would eliminate our management fees and incentive income derived from such funds.

The governing agreements of most of our funds provide that, subject to certain conditions, third-party investors in those funds have the right, without cause, to vote to remove us as investment manager or general partner of the fund by a simple majority vote, resulting in the elimination of the assets under management by those funds and the management fees and incentive income derived from those funds. In addition to having a significant negative impact on our business, financial condition or results of operations, the occurrence of such an event would likely result in significant reputational damage to us.

In addition, because our funds generally have an adviser that is registered under the Advisers Act, the management agreements of all of our funds would be terminated upon an “assignment” of these agreements without investor consent, which assignment may be deemed to occur in the event these advisers were to experience a change of control. We cannot be certain that consents required to assignments of our investment management agreements will be obtained if a change of control occurs. “Assignment” of these agreements without investor consent could cause us to lose the fees we earn from such funds.

Our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business, financial condition or results of operations.

The Sarbanes-Oxley Act and the related rules require our management to conduct annual assessments of the effectiveness of our internal control over financial reporting and require a report by our independent registered public accounting firm, as well as an independent audit of our internal control over financial reporting. If our independent registered public accounting firm is unable to opine on the effectiveness of our internal control over financial reporting for any reason or we are unable to report our financial information on a timely basis due to matters impacting our internal controls, as has occurred in the past, we may become subject to adverse regulatory or other consequences, including sanctions or investigations by the SEC, and some of these consequences could have a material adverse effect on our business, financial condition or results of operations.

Our failure to deal appropriately with conflicts of interest could damage our reputation and materially adversely affect our business, financial condition or results of operations.

As we expand the scope of our business, we increasingly confront potential conflicts of interest relating to our funds’ investment activities. Certain of our funds have overlapping investment objectives and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among or even within those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to buy or sell securities in the public markets. In addition, fund investors and holders of our Class A Shares may perceive conflicts of interest regarding

investment decisions for funds in which our executive managing directors and employees, who have and may continue to make significant personal investments, are personally invested.

It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which would materially adversely affect our business, financial condition or results of operations in a number of ways, including an inability to raise additional funds and a reluctance of counterparties to do business with us.

Misconduct by our executive managing directors, employees or agents could harm us by impairing our ability to attract and retain investors and subjecting us to significant legal liability, regulatory scrutiny and reputational harm.

There is a risk that our executive managing directors, employees, joint venture partners, consultants or agents could engage in misconduct that materially adversely affects our business. We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets we manage, as well as our status as a public company with securities listed on the NYSE. The violation of these obligations and standards by any of our executive managing directors, employees, joint venture partners, consultants or agents could materially adversely affect our investors, both in our funds and in our Class A Shares, and us. In addition to these numerous and complex obligations, our business requires that we properly deal with confidential matters of great significance to companies in which we may invest or with which we otherwise do business. If our executive managing directors, employees, joint venture partners, consultants or agents were improperly to use or disclose confidential information, we could be subject to litigation, regulatory investigations or sanctions and suffer serious harm to our reputation, financial position and current and future business relationships. Furthermore, there have been a number of recent highly publicized cases involving fraud or other misconduct by employees in the financial services industry generally and there can be no assurance that we will not suffer from similar employee misconduct. It is not always possible to detect or deter employee misconduct, and the precautions we take to detect and prevent this activity have not been and may not be effective in all cases. If one of our executive managing directors, employees, joint venture partners, consultants or agents were to engage in misconduct or were to be accused of such misconduct, even if such allegations were unsubstantiated, our reputation and our business, financial condition or results of operations could be materially adversely affected.

In recent years, the DOJ and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the UK has recently significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA, such policies and procedures previously have not been, and in the future may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-bribery laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business, financial condition or results of operations.

We may enter into new businesses, make future strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties in our business.

We intend, to the extent that market conditions warrant, to grow our business by increasing assets under management and creating new investment platforms and businesses. Accordingly, we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business in which we may not have extensive experience, including sponsoring business development companies. In addition, we expect opportunities will arise to acquire, or enter into joint ventures with, other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, enter into joint ventures, or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with the required investment of capital and other resources, the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, combining or integrating operational and management systems and controls, or loss of investors in our funds due to the perception that we are no longer focusing on our core fund management duties. Entry into certain lines of business may subject us to more complex or extensive new laws and regulations with which we may not be familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business that we enter into generates insufficient revenues or if we are unable to efficiently manage any expansion of our operations, our business, financial condition or results of operations could be materially adversely affected. In

the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Changes in the credit markets may negatively impact our ability to refinance our outstanding indebtedness or our ability to otherwise obtain attractive financing for our business, and may increase the cost of such financing if it is obtained, which would lead to higher interest expense or, with respect to our funds, lower-yielding investments, either of which would decrease our earnings. An increase in our borrowing costs may materially adversely affect our business, financial condition or results of operations.

In November 2019, our Revolving Credit Facility will expire and our Senior Notes will mature. At those times, we will be required to either refinance or replace any outstanding indebtedness under the Revolving Credit Facility (or to obtain a new revolving line of credit), and the Senior Notes, as applicable, by entering into one or more new credit facilities or issuing debt securities, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay any outstanding loans under the Revolving Credit Facility, or the Senior Notes, by using cash on hand or cash from the sale of our assets, which would reduce amounts available for compensation of our employees or distribution to our Class A Shareholders and our executive managing directors. No assurance can be given that we will be able to enter into new credit facilities, issue debt securities or issue equity in the future on attractive terms, or at all. Loans under the Revolving Credit Facility may be subject to a base rate plus a margin or a LIBOR-based floating rate plus a margin, and the interest expense we incur may vary with changes in the applicable LIBOR reference rate. See “Item 7A. Qualitative and Quantitative Disclosures about Market Risk—Interest Rate Risk,” for additional information regarding the impact that a change in LIBOR would have on our annual interest expense associated with our debt obligations.

As our Revolving Credit Facility, the Senior Notes and, with respect to our funds, other committed secured credit facilities expire, or if our lenders fail, we will need to replace them by entering into new facilities or finding other sources of liquidity. Furthermore, to the extent that the debt financing markets make it difficult or impossible for us to refinance or replace our Revolving Credit Facility or the Senior Notes, we may be unable to repay the loans outstanding under the Revolving Credit Facility, if any, or the aggregate principal amount of the Senior Notes upon maturity, our liquidity may be reduced in a manner that may restrict or otherwise prevent us from funding or operating our general business affairs. We may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection, and substantial doubt may be raised as to our status as a going concern. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and “—Debt Obligations” for a discussion of our Revolving Credit Facility and overall liquidity position.

Furthermore, depending on the facts and circumstances, we may want to use significant borrowings to finance our business operations or growth. If we incur additional substantial indebtedness, we will be exposed to risks associated with the use of substantial borrowings, including those discussed below under “—Risks Related to Our Funds—Our funds may determine to use leverage in investments, which could materially adversely affect our ability to achieve positive rates of return on those investments.”

Risks Related to Our Funds

Our results of operations are dependent on the performance of our funds. Poor performance of our funds will result in reduced revenues and earnings and make it difficult for us to retain or attract investors to our funds, retain and increase assets under management and grow our business. The performance of each fund we manage is subject to some or all of the following risks.

Difficult market conditions can adversely affect our funds in many ways, including by negatively impacting their performance and reducing their ability to raise or deploy capital, which could materially reduce our revenues and adversely affect our business, financial condition or results of operations.

A recurrence of significant disruption and volatility in the global financial markets and economies could impair the investment performance of our funds. Additionally, we may not be able to raise capital for existing or new funds during, or even following, periods of market instability. Although we seek to generate consistent, positive, absolute returns across all market cycles, our funds have been and may be materially affected by conditions in the global financial markets and economic conditions. The global market and economic climate may become increasingly uncertain due to numerous factors beyond our control,

including but not limited to, concerns related to unpredictable global market and economic factors, regulatory uncertainty, rising interest rates, inflation or deflation, the availability of credit, performance of financial markets, terrorism or political uncertainty.

A general market downturn, a specific market dislocation or deteriorating economic conditions may cause a material reduction in our revenues and adversely affect our business, financial condition or results of operations by causing:

- A decline in assets under management, resulting in lower management fees and incentive income.
- An increase in the cost of financial instruments, executing transactions or otherwise doing business.
- Lower or negative investment returns, which may reduce assets under management and potential incentive income.
- Reduced demand for assets held by our funds, which would negatively affect our funds' ability to realize value from such assets.
- Increased investor redemptions or greater demands for enhanced liquidity or other terms, resulting in a reduction in assets under management, lower revenues and potential increased difficulty in raising new capital.

Furthermore, while difficult market and economic conditions and other factors can potentially increase investment opportunities over the long term, including with respect to the competitive landscape for the hedge fund industry, such conditions and factors also increase the risk of increased investment losses and additional regulation, which may impair our business model and operations. Our funds may also be materially adversely affected by difficult market conditions if our investment professionals fail to assess the adverse effect of such conditions on our investments, resulting in a significant reduction in the value of those investments. Moreover, challenging market conditions may prompt alternative asset managers to reduce the management fee and incentive income rates they charge in order to retain assets. In response to competitive pressures or for any other reason, we may reduce or change the fee structures of our funds, which could reduce the amount of fees and income that we may earn relative to assets under management.

Most of our funds utilize investment strategies that depend on our ability to appropriately react to, or accurately assess, the occurrence of, certain events, including market and corporate events. If we fail to do so, our funds' investment performance could be adversely affected in a material way.

The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or any future funds we may raise.

We have presented throughout this report the net composite returns relating to the historical performance of our most significant funds, and we have also referred to other metrics associated with historical returns, such as risk and correlation measures. The returns are relevant to us primarily insofar as they are indicative of incentive income we have earned in prior periods and are not indicative of any future fund returns.

Moreover, with respect to the historical returns of our funds:

- The historical returns of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise.
- Our funds' returns, particularly during periods of more extreme market and economic conditions, have benefited from or been impaired by the existence or lack of investment opportunities and such general market and economic conditions, which may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities.
- The historical rates of return of our funds reflect such funds' historical expenses, which may vary in the future due to factors beyond our control, including changes in laws or regulations.

We are subject to counterparty default risks.

Our funds enter into numerous types of financial arrangements with a wide array of counterparties around the world, including loans, swaps, repurchase agreements, securities lending agreements and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex and these arrangements may occur in markets or relate to

products that are not currently subject to experienced regulatory oversight. In particular, certain of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, under the contract. Any such default may occur rapidly and without prior notice to us. Moreover, if a counterparty defaults, we may be unable to take action to recover our assets or any amounts due to us, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur at any time, but particularly in times of market stress, which are precisely the times when defaults may be most likely to occur.

In addition, our risk-management assessments may not accurately anticipate the impact of market stress or counterparty financial condition and, as a result, we may not take sufficient action to reduce our risks effectively. Although each of our funds regularly monitors its credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major commercial bank or other financial institution, one or more of our funds could incur material losses, and the resulting market impact of a major counterparty default could harm our business, results of operation and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

The counterparty risks that we face have increased in complexity and magnitude as a result of the financial crisis, including the recent sovereign debt crisis in Europe, and resulting impairment or insolvency of a number of major financial institutions that serve as counterparties for derivative contracts and other financial instruments with our funds. The consolidation or elimination of counterparties may also result in concentration of counterparty risk. In addition, counterparties have generally reacted to the ongoing market volatility by tightening their underwriting standards and increasing their margin requirements for all categories of financing, which has the result of decreasing the overall amount of leverage available to our funds and increasing the costs of borrowing.

Poor performance of our funds would cause a decline in our revenues, results of operations and cash flows and could materially adversely affect our ability to retain capital or attract additional capital.

If our funds perform poorly, our revenues, results of operations and cash flows decline because the value of our assets under management decreases, which in turn results in a reduction in management fees. To the extent that our funds perform poorly and such performance is continuing at the end of a relevant commitment period, we would experience a reduction in incentive income and, if such reduction was substantial, could result in the elimination of incentive income for a given year and future years until that decrease has been surpassed by positive performance. Poor performance of our funds would make it more difficult for us to raise new capital and may cause investors in our funds to redeem their investments. Investors and potential investors in our funds continually assess our funds' performance, as well as our ability to raise capital for existing and future funds. Our ability to avoid excessive redemption levels will depend in part on our funds' continued satisfactory performance. Moreover, poor performance, particularly in our most significant funds, would harm our reputation and competitive standing, which would further impair our ability to retain or attract fund capital. These factors may cause us to reduce or change the fee structure of our funds in order to retain or continue to attract assets under management, which could further reduce the amounts of management fees and incentive income that we may earn relative to assets under management.

Our funds may determine to use leverage in investments, which could materially adversely affect our ability to achieve positive rates of return on those investments.

Our funds use or may choose to use leverage, either directly or through the use of derivative instruments, to increase the yield on certain of their investments. The use of leverage poses a significant degree of risk, most notably by significantly increasing the risk of loss associated with leveraged investments that decline in value, and enhances the possibility of a significant loss in the value of the investments in our funds. Our funds may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the

securities purchased or carried, and will be lost—and the timing and magnitude of such losses may be accelerated or exacerbated—in the event of a decline in the market value of such securities. Volatility in the credit markets increases the degree of risk associated with such borrowing. Gains realized with borrowed funds may cause a fund's net asset value to increase at a faster rate than would be the case without borrowings. If investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings. Increases in interest rates could also decrease the value of fixed-rate debt investments made by our funds. To the extent our funds determine to significantly increase their use of leverage, any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flows.

The due diligence process that we undertake in connection with investments by our funds may not reveal all facts that may be relevant in connection with making an investment.

Before investments are made by our funds, particularly investments in securities that are not publicly traded, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment bankers may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence that we carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, and such an evaluation will not necessarily result in the investment being successful. Moreover, the level of due diligence conducted with respect to a particular investment will vary and we may not properly assess the appropriate amount of diligence for each investment, which may result in losses.

Our funds may invest in relatively high-risk, illiquid assets, including structured products, and may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal investments.

Our funds invest in securities that are not publicly traded or that are otherwise illiquid, including complex structured products. There may be no readily available liquidity in these securities, particularly at times of market stress or where many participants may be seeking liquidity at the same time. In many cases, our funds may be prohibited, whether by contract, by applicable securities laws or by the lack of a liquid market, from selling such securities for a period of time. Moreover, even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the required holding period. Accordingly, under certain conditions, our funds may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that they had planned to make. Investment in illiquid assets involves considerable risk and our funds may lose some or all of the principal amount of such investments.

Valuation methodologies for certain assets in our funds are subject to significant subjectivity and the values established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are no readily ascertainable market prices for the large number of the illiquid investments held by our funds. The fair value of the investments of our funds is determined periodically by us using a number of methodologies permitted by our funds' valuation policies. These methodologies involve a significant degree of judgment and are based on a number of factors, which may include, without limitations, the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. In addition, because certain of the illiquid investments held by our funds may be in industries or sectors that are under distress or undergoing some uncertainty, such investments may be subject to rapid changes in value caused by sudden company-specific or industry-specific developments.

Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for our investments, such quotations may not reflect the value that may actually be realized because of various factors, including the possible illiquidity associated with a large ownership position, subsequent illiquidity in the market for a company's securities,

future market price volatility or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance.

Because there is significant uncertainty in the valuation of and in the stability of the value of illiquid investments, the fair values of such investments as reflected in a fund's net asset value do not necessarily reflect the prices that might actually be obtained when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in fund net asset values would result in losses for the applicable fund, a decline in management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different from values reflected in fund net asset values may cause investors to lose confidence in us, which could, in turn, result in redemptions from our funds, difficulties in our ability to raise additional capital or an increased risk of litigation by investors or governmental or self-regulatory organizations. These issues could result in regulatory scrutiny of our valuation methodologies, policies and related disclosures.

Our funds make investments in companies that we do not control, exposing us to the risk of decisions made by others with whom we may not agree.

Investments by our funds will include investments in debt or equity of companies that we do not control. Such investments may be acquired by our funds through trading activities or through purchases of securities from the issuer. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions contrary to our expectations, with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. In addition, we may make investments in which we share control over the investment with co-investors, which may make it more difficult for us to implement our investment approach or exit the investment when we otherwise would. If any of the foregoing were to occur with respect to one or more significant investments, the values of such investments by our funds could decrease and our business, financial condition or results of operations could suffer as a result.

Our funds make investments in companies that are based outside of the United States, exposing us to additional risks not typically associated with investing in companies that are based in the United States.

Many of our funds may invest a significant portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to the following:

- Currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another.
- Less developed or efficient financial markets than in the United States, which may not enable or permit appropriate hedging techniques or other developed trading activities, leading to potential price volatility and relative illiquidity.
- The absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation.
- Differences in the legal and regulatory environment, including less-developed or less-comprehensive bankruptcy laws.
- Fewer investor protections and less stringent requirements relating to fiduciary duties.
- Difficulties in enforcing contracts and filing claims under foreign legal systems.
- Less publicly available information in respect of companies in non-U.S. markets.
- Certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments.
- The possible imposition of non-U.S. taxes or withholding on income and gains recognized with respect to such securities.

There can be no assurance that adverse developments with respect to such risks will not materially adversely affect our funds' investments that are held in certain countries or the returns from these investments.

Our funds and certain of our counterparties may have direct or indirect credit exposure to sovereign debt of non-U.S. countries, and disruptions in these economies could have a negative effect on the performance of our funds or our business, financial condition or results of operations.

The financial markets continue to reflect concern and a loss of investor confidence globally about the ability of certain countries to finance their deficits and service growing debt burdens amid difficult economic conditions. The potential for insolvency has led to financial rescue measures for Greece, Portugal and Ireland by Euro-zone countries, the European Central Bank and the International Monetary Fund. The actions required to be taken by those countries as a condition to rescue packages, and by other countries to mitigate similar developments in their economies, have resulted in increased political and economic discord within and among Euro-zone countries. The interdependencies among European economies and financial institutions (in particular the European Central Bank, which has played a growing role during the crisis) have also exacerbated concern regarding the stability of European financial markets generally and certain institutions in particular. Our funds have and may continue to have exposure to non-U.S. sovereign debt, including the debt of a number of European countries whose credit ratings have been downgraded or placed under review in recent months by one or more major rating agencies. Given the scope of our global operations and our exposure to a wide array of counterparties, some of whom may have exposure to the economies of non-U.S. countries, there can be no assurance that persistent or unexpected disruptions in the global financial markets related to, directly or indirectly, non-U.S. sovereign debt will not have a negative impact on our business, financial condition or results of operations.

Risk management activities may materially adversely affect the return on our funds' investments.

When managing our funds' exposure to market risks, we may from time to time use hedging strategies and various forms of derivative instruments to limit the funds' exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging transactions generally will depend on our ability to correctly assess the degree of correlation between price movements of the hedging instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while we may enter into a transaction in order to reduce our exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases. In addition, the degree of correlation between price movements of the instruments used in connection with hedging activities and price movements in a position being hedged may vary. For a variety of reasons, we may not seek or be successful in establishing a perfect correlation between the instruments used in a hedging or other derivative transaction and the position being hedged. An imperfect correlation could prevent us from achieving the intended result and could give rise to a loss. In addition, it may not be possible to fully or perfectly limit our exposure against all changes in the value of our investment because the value of investments is likely to fluctuate as a result of a number of factors, some of which will be beyond our control or ability to hedge.

If our risk management processes and systems are ineffective, we may be exposed to material unanticipated losses.

We continue to refine and implement our risk management techniques, strategies and assessment methods, such as the use of statistical and other quantitative and qualitative tools to identify, observe, measure and analyze the risks to which our funds are exposed. These methods, even if properly implemented, may not allow us to fully mitigate the risk exposure of our funds in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Some of our strategies for anticipating and managing risk in our funds are based upon our use of historical market behavior statistics, which may not be an accurate predictor of current or future market risks. We apply statistical and other tools to these observations to measure and analyze the risks to which our funds are exposed. Any failure in our risk management systems, whether in design or implementation, to accurately identify and quantify such risk exposure could limit our ability to manage risks in the funds, identify appropriate investment opportunities or realize positive, risk-adjusted returns. Because neither our quantitative nor qualitative risk management processes can anticipate for every investment the economic and financial outcome or timing and other specifics of the outcome, we will, in the course of our activities, incur losses.

Our funds' investments are subject to numerous additional risks.

Our funds' investments are subject to numerous additional risks, including the following:

- The funds may engage in short selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.
- Our funds may be limited in their ability to engage in short selling or other activities as a result of regulatory mandates. Such regulatory actions may limit our ability to engage in hedging activities and therefore impair our investment strategies. In addition, our funds may invest in securities and other assets for which appropriate market hedges do not exist or cannot be acquired on attractive terms.
- Our funds may invest in companies with weak financial conditions, poor operating results, substantial financial needs, negative net worth and/or special competitive problems or that are involved in bankruptcy or reorganization proceedings. In such "distressed" situations, it may be difficult to obtain full information as to the exact financial and operating condition of the issuer. Depending on the specific fund's investment profile, a fund's exposure to distressed investments may be substantial in relation to the market for those investments and the investments may be illiquid and difficult to transfer. As a result, it may take a number of years for the fair value of our funds' distressed investments to reflect their intrinsic value as perceived by us.
- Distressed investments may be involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions and may purchase high-risk receivables. Additionally, the fair values of such investments may be subject to abrupt and erratic market movements and significant price volatility if they are widely traded securities and significant uncertainty in general if they are not widely traded securities or have no recognized market. Moreover, a major economic recession could have a materially adverse impact on the value of such securities. An investment in such business enterprises entails the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the fund of the security or other financial instrument in respect of which such distribution is received. In addition, if an anticipated transaction does not in fact occur, the fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a fund of its entire investment in each such company.
- Investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade or otherwise adversely affect our reputation.
- Credit risk may be exacerbated by a default by any one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" could have a further material adverse effect on the financial intermediaries (such as prime brokers, clearing agencies, clearing houses, banks, securities firms and exchanges) with which the funds transact on a daily basis. Although the U.S. government, including the U.S. Treasury Department and the Federal Reserve, has taken significant actions to prevent a systemic collapse, no assurance can be given that such actions will be sufficient or successful in all cases.
- The effectiveness of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds may only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the investment manager or general partner of such funds, and might incur a loss in liquidating their position.

- Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates; changing supply and demand relationships; trade, fiscal, monetary and exchange control programs; and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the securities underlying them. In addition, the funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.
- Our funds may make real estate investments, including, without limitation, the acquisition of real estate assets, the purchase of loans secured directly or indirectly by real estate and the purchase of securities backed by mortgage loans secured by real estate, which will be subject to the risks incident to the lending, ownership and operation of commercial and residential real estate, including (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks relating to the decline in value of the real estate properties in question; (v) risks and operating problems arising out of the absence of certain construction materials; (vi) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vii) the financial condition of tenants, buyers and sellers of properties; (viii) risks relating to the absence of debt financing or changes in its availability; (ix) energy and supply shortages; (x) laws assigning liability to the owners of real estate properties for environmental hazards existing on such properties; (xi) laws relating to real estate lending, management and/or ownership that are complex or unclear or otherwise difficult to comply with; (xii) changes in the tax, real estate, environmental and zoning laws and regulations; (xiii) various uninsured or uninsurable risks; (xiv) natural disasters; and (xv) the ability of the fund or third party borrowers to develop and manage the real properties. With respect to investments in equity or debt securities, the fund will in large part be dependent on the ability of third parties to successfully manage the underlying real estate assets. In addition, the fund may invest in mortgage loans that are structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The fund's investment strategy, which may involve the acquisition of distressed or underperforming assets in a leveraged capital structure, will involve a high degree of legal and financial risk, and there can be no assurance that the fund's rate of return objectives will be realized or that there will be any return of capital. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid.

Risks Related to Our Organization and Structure

Control by Mr. Och of the total combined voting power of our shares could cause or prevent us from engaging in certain transactions, which could materially adversely affect the market price of the Class A Shares or deprive our Class A Shareholders of an opportunity to receive a premium as part of a sale of our Company.

As of December 31, 2016, our executive managing directors control approximately 63.4% of the total combined voting power of our Class A Shares and Class B Shares through their ownership of 100% of our Class B Shares and Mr. Och's and certain other executive managing directors' ownership of Class A Shares purchased on the open market. In addition, our executive managing directors will receive additional Class B Shares resulting in additional control upon the conversion of any Och-Ziff Operating Group D Units into Och-Ziff Operating Group A Units and, if an amendment to our 2013 Incentive Plan is approved at our upcoming annual meeting of shareholders, in connection with the grant of Och-Ziff Operating Group P Units under the 2017 Incentive Program. See Note 19 to our consolidated financial statements included in this report for additional information on the 2017 Incentive Program. Each of our executive managing directors that owns Class B Shares has granted to the Class B Shareholder Committee, the sole member of which is currently our founder, Mr. Och, an irrevocable proxy to vote all of their Class B Shares as the Committee may determine in its sole discretion. This proxy will terminate upon the later of Mr. Och's withdrawal, death or disability, or such time as our executive managing directors hold less than 40% of our total combined voting power. Accordingly, Mr. Och currently has the ability to elect all of the members of our Board of Directors and thereby control our management and affairs. In addition, he currently is able to determine the outcome of all matters requiring shareholder approval and will be able to cause or prevent a change of control of our Company or a change in the composition of our Board of Directors, and could preclude any unsolicited acquisition of our Company. The control of voting power by Mr. Och could deprive Class A Shareholders of an opportunity to receive a premium for their Class A Shares as part of a sale of our Company, and might ultimately affect the market price of the Class A Shares. Upon Mr. Och's withdrawal, death or disability, the

Class B Shareholder Committee will consist of either the remaining members of the Partner Management Committee, who shall act by majority vote in such capacity, or an executive managing director elected by majority vote of the remaining members of the Partner Management Committee to serve as the sole member of the Class B Shareholder Committee.

In addition, the shareholders' agreement among us and our executive managing directors, in their capacity as the Class B shareholders, provides the Class B Shareholder Committee, so long as our executive managing directors and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A Shares and Class B Shares, with approval rights over a variety of significant Board actions, including:

- Any incurrence of indebtedness, other than intercompany indebtedness, in one transaction or a series of related transactions, by us or any of our subsidiaries or controlled affiliates in an amount in excess of approximately 10% of the then existing long-term indebtedness of us and our subsidiaries.
- Any issuance by us or any of our subsidiaries or controlled affiliates, in any transaction or series of related transactions, of equity or equity-related shares which would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total combined voting power of our outstanding Class A Shares and Class B Shares other than (i) pursuant to transactions solely among us and our wholly owned subsidiaries, (ii) upon issuances of securities pursuant to the Plan, (iii) upon the exchange by our executive managing directors of Och-Ziff Operating Group A Units for our Class A Shares pursuant to the exchange agreement or (iv) upon conversion of any convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options may be issued and are either outstanding on the date of, or issued in compliance with, the shareholders' agreement.
- Any equity or debt commitment or investment or series of related equity or debt commitments or investments by us or any of our subsidiaries or controlled affiliates in an unaffiliated entity or related group of entities in an amount greater than \$250 million.
- Any entry by us, any subsidiary or controlled affiliate into a new line of business that does not involve investment management and that requires a principal investment in excess of \$100 million.
- The adoption of a shareholder rights plan.
- Any appointment or removal of a chief executive officer or co-chief executive officer.
- The termination of the employment of an executive officer or the active involvement of an executive managing director with us or any of our subsidiaries or controlled affiliates without cause.

In addition, our operating agreement requires that we obtain the consent of the Class B Shareholder Committee for specified actions primarily relating to our structure so long as any Class B Shares are outstanding. Our structure is intended to ensure that we maintain exchangeability of Och-Ziff Operating Group A Units for Class A Shares on a one-for-one basis. Accordingly, the Class B Shareholder Committee will have the right to approve or consent to actions that could result in an economic disparity between holders of our Class A Shares and other classes of equity, such as the issuance of certain securities, making certain capital contributions, owning or disposing of certain assets, incurring certain indebtedness and conducting business outside of the Och-Ziff Operating Group.

Our operating agreement contains provisions that reduce fiduciary duties of our directors and officers with respect to potential conflicts of interest against such individuals and limit remedies available to our Class A Shareholders against such individuals for actions that might otherwise constitute a breach of duty.

Our operating agreement provides that in the event a potential conflict of interest exists or arises between any of our executive managing directors, our officers, our directors or their respective affiliates, on the one hand, and us, any of our subsidiaries or any of our shareholders, on the other hand, a resolution or course of action by our Board of Directors shall be deemed approved by all of our shareholders, and shall not constitute a breach of the fiduciary duties of members of the Board to us or our shareholders, if such resolution or course of action is: (i) approved by our Nominating, Corporate Governance and Conflicts Committee, which is composed of independent directors; (ii) approved by shareholders holding a majority of our shares that are disinterested parties; (iii) on terms no less favorable than those generally provided to or available from unrelated third parties; or (iv) fair and reasonable to us. Accordingly, if such a resolution or course of action is approved by our Nominating,

Corporate Governance and Conflicts Committee or otherwise meets one or more of the above criteria, shareholders will not be able to successfully assert a claim that such resolution or course of action constituted a breach of fiduciary duties owed to our shareholders by our officers, directors and their respective affiliates. Under the Delaware General Corporation Law, which we refer to as the “DGCL,” in contrast, a corporation is not permitted to automatically exempt Board members from claims of breach of fiduciary duty under such circumstances.

Our operating agreement contains provisions limiting the liability of our officers and directors to us, which also reduces remedies available to our Class A Shareholders for certain acts by such persons.

Our operating agreement also provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us other than in instances of fraud, gross negligence and willful misconduct. Accordingly, unless our officers or directors commit acts of fraud, gross negligence or willful misconduct, our shareholders may not have remedies available against such individuals under applicable law. Under the DGCL, in contrast, a director or officer would be liable to us for: (i) breach of duty of loyalty to us or our shareholders; (ii) intentional misconduct or knowing violations of the law that are not done in good faith; (iii) improper redemption of stock or declaration of a dividend; or (iv) a transaction from which the director derived an improper personal benefit.

Our operating agreement also provides that we will indemnify our directors and officers for acts or omissions to the fullest extent permitted by law other than in instances of fraud, gross negligence and willful misconduct, against all expenses and liabilities (including judgments, fines, penalties, interest, amounts paid in settlement with the approval of the Company and counsel fees and disbursements) arising from the performance of any of their obligations or duties in connection with their service to us or the operating agreement, including in connection with any civil, criminal, administrative, investigative or other action, suit or proceeding to which any such person may hereafter be made party by reason of being or having been one of our directors or officers. Under the DGCL, in contrast, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful.

In the future, we may elect to rely on exceptions from certain corporate governance and other requirements under the rules of the NYSE.

Our executive managing directors control more than 50% of our voting power. We are therefore eligible for the “controlled company” exception from NYSE requirements that our Board of Directors be comprised of a majority of independent directors and that our Compensation Committee and Nominating, Corporate Governance and Conflicts Committee consist solely of independent directors. Although we do not currently intend to utilize this exception, we may in the future determine to do so.

Because our executive managing directors hold their economic interest in our business directly in the Och-Ziff Operating Group, conflicts of interest may arise between them and holders of our Class A Shares, particularly with respect to tax considerations.

As of December 31, 2016, our executive managing directors held 61.7% of the equity in the Och-Ziff Operating Group directly through Och-Ziff Operating Group A Units, rather than through ownership of our Class A Shares. In addition, as of December 31, 2016, our executive managing directors held a 5.0% interest in the Och-Ziff Operating Group in the form of Och-Ziff Operating Group D Units, which are non-equity profit interests. Because they hold their economic interests in our business directly through the Och-Ziff Operating Group, our executive managing directors may have conflicting interests with holders of Class A Shares or with us. For example, our executive managing directors will have different tax positions from holders of our Class A Shares which could influence decisions of the Class B Shareholder Committee and also our Board of Directors regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement. Decisions with respect to these and other operational matters could affect the timing and amounts of payments due to our executive managing directors and the Ziffs under the tax receivable agreement. In addition, the structuring of future transactions and investments may take into consideration our executive managing directors’ tax considerations even where no similar benefit would accrue to us or the holders of Class A Shares.

We intend to pay regular quarterly distributions but our ability to do so may be limited by our holding company structure, as we are dependent on distributions from the Och-Ziff Operating Group to make distributions and to pay taxes and other expenses.

As a holding company, our ability to make distributions or to pay taxes and other expenses is subject to the ability of our subsidiaries to provide cash to us. We intend to make quarterly distributions to our Class A Shareholders. Accordingly, we expect to cause the Och-Ziff Operating Group to make distributions to the direct owners of Och-Ziff Operating Group Units, currently our intermediate holding companies, and our executive managing directors, pro rata in an amount sufficient to enable us to pay corresponding distributions to our Class A Shareholders and make required tax payments and payments under the tax receivable agreement; however, no assurance can be given that such distributions will or can be made. Our Board of Directors can change our distribution policy or reduce or eliminate our distributions at any time, in its discretion. In addition, the Och-Ziff Operating Group is required to make minimum tax distributions to its direct unit holders, to which our Class A Shareholders may not be entitled, as distributions on Och-Ziff Operating Group B Units to our intermediate holding companies may be used to settle tax liabilities, if any, or other obligations. In addition, the Och-Ziff Operating Group may make distributions to our executive managing directors in respect of their Class C Non-Equity Interests with respect to cash awards granted to them under the PIP or otherwise. As a result, Class A Shareholders may not receive any distributions at a time when our executive managing directors are receiving distributions on their ownership interests. If the Och-Ziff Operating Group has insufficient funds to make such distributions, we may have to borrow additional funds or sell assets, which could have a material adverse effect on our business, financial condition or results of operations.

Furthermore, by paying cash distributions rather than investing that cash in our business, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

There may be circumstances under which we are restricted from making distributions under applicable law or regulation (for example, due to Delaware limited partnership act or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the fair value of the entity's assets).

The declaration and payment of any 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.

Because we have historically earned and recognized most of our incentive income in the fourth quarter of each year, we anticipate that quarterly distributions in respect of the first three calendar quarters will be disproportionate to distributions in respect of the last calendar quarter, which will typically be paid in the first calendar quarter of the following year. 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 Revolving Credit Facility; legal, tax and regulatory restrictions; and other restrictions and implications 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. Any compensatory payments made to our employees, as well as payments that Och-Ziff Corp makes under the tax receivable agreement and distributions to holders of ownership interests in respect of their tax liabilities arising from their direct ownership of ownership interests, will reduce amounts that would otherwise be available for distribution on our Class A Shares. In addition, discretionary income allocations on Class C Non-Equity Interests as determined by the Chairman of the Partner Management Committee (or, in the event there is no Chairman, the full Partner Management Committee acting by majority vote) in conjunction with our Compensation Committee, relating to cash awards granted to our executive managing directors, including under the PIP, will also reduce amounts available for distribution to our Class A Shareholders. We have granted RSUs that may settle in Class A Shares to certain of our executive managing directors, managing directors and other employees, and to independent members of our Board of Directors. All of these RSUs accrue distributions to be paid if and when the underlying RSUs vest. Distributions may be paid in cash or in additional RSUs that accrue additional distributions and will be settled at the same time the underlying RSUs vest.

The declaration and payment of any distribution may be subject to legal, contractual or other restrictions. For example, as a Delaware limited liability company, we are not permitted to make distributions if and to the extent that after giving effect to such distributions, our liabilities would exceed the fair value of our assets. In addition, we may not be permitted to make certain distributions if we are in default under our Revolving Credit Facility. 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.

There are a number of risks involving the tax receivable agreement we are party to, including the risk that the Internal Revenue Service may challenge all or part of the tax basis increases and related increased deductions, and a court could sustain such a challenge, even with respect to amounts for which we have made payments pursuant to the tax receivable agreement.

The actual increase in tax basis of the Och-Ziff Operating Group 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 law in effect at the time of an exchange or a payment under the tax receivable agreement, the timing of future exchanges, the timing and amount of prior payments under the tax receivable agreement, the price of our Class A Shares at the time of any exchange, the composition of the Och-Ziff Operating Group's assets at the time of any exchange, the extent to which such exchanges are taxable and the amount and timing of the income of Och-Ziff Corp and our other intermediate corporate taxpayers that hold Och-Ziff Operating Group B Units in connection with an exchange, if any. 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 are likely to be substantial. In light of the numerous factors affecting our obligation to make payments under the tax receivable agreement, however, the timing and amounts of any such actual payments are not reasonably ascertainable. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Tax Receivable Agreement."

The Internal Revenue Service ("IRS") may challenge all or part of increased deductions and tax basis increase, and a court could sustain such a challenge, which could result in a substantial increase in our tax liabilities. Were the IRS to challenge a tax basis increase, our executive managing directors and the Ziffs who have received payments under the tax receivable agreement will not reimburse the corporate taxpayers for any such payments that have been previously made. As a result, in certain circumstances, payments could be made to our executive managing directors and the Ziffs under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

Decisions made by our executive managing directors in the course of running our business, in particular decisions made with respect to the sale or disposition of assets or change of control, may influence the timing and amount of payments that are payable to an exchanging or selling executive managing director or the Ziffs under the tax receivable agreement. In general, earlier disposition of assets following an exchange or acquisition transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before an exchange or acquisition transaction will tend to increase the tax liability of our executive managing directors or the Ziffs without giving rise to any rights to receive payments under the tax receivable agreement.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain prescribed assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. Accordingly, obligations under the tax receivable agreement may make it more expensive for third parties to acquire control of us and make it more difficult for the holders of Class A Shares to recognize a premium in connection with any such transaction. Finally, we may need to incur debt to finance payments under the tax receivable agreement to the extent our cash resources are insufficient to meet our obligations under the tax receivable agreement, which may or may not be available on favorable terms, if at all.

If we are deemed an investment company under the 1940 Act, the applicable restrictions could make it impracticable for us to continue our business as contemplated and would have a material adverse impact on the market price of our Class A Shares.

We do not believe that we are an "investment company" under the 1940 Act because the nature of our assets and the sources of our income exclude us from the definition of an investment company under the 1940 Act. In addition, we believe our

Company is not an investment company under Section 3(b)(1) of the 1940 Act because we are primarily engaged in a non-investment company business. We intend to continue to conduct our operations so that we will not be deemed an investment company. If we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated. In addition, we would no longer be treated, for U.S. federal income tax purposes, as a partnership and our earnings would become taxable as a corporation, which could have a material adverse effect on our business, financial condition or results of operations and the price of our Class A Shares.

Risks Related to Our Shares

The market price and trading volume of our Class A Shares has been and may continue to be highly volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A Shares has been and may continue to be highly volatile and subject to wide fluctuations. In addition, the trading volume in our Class A Shares can be highly variable, which has caused and may continue to cause significant price variations to occur. The market price of our Class A Shares may fluctuate or decline significantly in the future.

Some of the primary factors that could negatively affect the price of our Class A Shares or result in fluctuations in the price or trading volume of our Class A Shares include:

- Reductions or lack of growth in our assets under management, whether due to poor investment performance by our funds or redemptions by investors in our funds.
- Difficult global market and economic conditions.
- Loss of investor confidence in the global financial markets and investing in general and in alternative asset managers in particular.
- Competitively adverse actions taken by other hedge fund managers with respect to pricing, fund structure, redemptions, employee recruiting and compensation.
- Inability to attract, retain or motivate our active executive managing directors, investment professionals, managing directors or other key personnel.
- Inability to refinance or replace our Revolving Credit Facility or the Senior Notes either on acceptable terms or at all.
- Public or other offerings of additional Class A Shares.
- Inability to develop or successfully execute on business strategies or plans.
- Unanticipated variations in our quarterly operating results or dividends.
- Failure to meet analysts' earnings estimates.
- Publication of negative or inaccurate research reports about us or the asset management industry or the failure of securities analysts to provide adequate coverage of our Class A Shares in the future.
- Adverse market reaction to any indebtedness we may incur, Och-Ziff Operating Group Units or cash awards we may grant under our PIP, 2017 Incentive Program or otherwise, or any other securities we may issue in the future.
- Changes in market valuations of similar companies.
- Speculation in the press or investment community about our business.
- Additional or unexpected changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters.
- Increases in compliance or enforcement inquiries and investigations by regulatory authorities, including as a result of regulations mandated by the Dodd-Frank Act and other initiatives of various regulators that have jurisdiction over us related to the alternative asset management industry.
- Adverse publicity about the asset management industry generally or scandals involving hedge funds specifically.

The price of our Class A Shares may decline due to the large number of shares eligible for future sale and for exchange into Class A Shares.

The market price of our Class A Shares could decline as a result of sales of a large number of our Class A Shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of December 31, 2016, 184,843,255 Class A Shares were outstanding and 30,706,935 interests were outstanding pursuant to our Amended and Restated 2007 Equity Incentive Plan, with approximately 6,001,347 Class A Shares and other plan interests that remain available for future grant under that plan. The Class A Shares reserved under the Amended and Restated 2007 Equity Incentive Plan are increased on the first day of each fiscal year during the plan's term by the positive difference, if any, of (i) 15% of the number of outstanding Class A Shares (assuming the exchange of all outstanding Och-Ziff Operating Group A Units for Class A Shares) on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved for issuance under the plan as of such date. As of December 31, 2016, 36,583,198 interests were outstanding pursuant to our 2013 Incentive Plan, and approximately 40,081,567 Class A Shares and other plan interests remain available for future grant under that plan. The Class A Shares reserved under our 2013 Incentive Plan are increased on the first day of each fiscal year during the plan's term by 15% of any increase in the number of outstanding Class A Shares (assuming the exchange of all outstanding Och-Ziff Operating Group Units (other than Och-Ziff Operating Group B Units) for Class A Shares) from the number outstanding on the first day of the immediately preceding fiscal year.

As of December 31, 2016, our executive managing directors owned an aggregate of 322,767,350 Och-Ziff Operating Group A and D Units. The holder of any Och-Ziff Operating Group A Units generally has the right to exchange each of its Och-Ziff Operating Group A Units for one of our Class A Shares (or, at our option, a cash equivalent), subject to vesting, minimum retained ownership requirements and transfer restrictions. The Och-Ziff Operating Group D Units convert into Och-Ziff Operating Group A Units to the extent we determine that they have become economically equivalent to Och-Ziff Operating Group A Units. As of March 1, 2017, our executive managing directors owned an aggregate of 73,400,000 Och-Ziff Operating Group P Units. If shareholders approve an amendment to our 2013 Incentive Plan to reserve a sufficient number of Class A Shares under the 2013 Incentive Plan, the holder of any Och-Ziff Operating Group P Unit generally has the right to exchange each of its Och-Ziff Operating Group P Units for one of our Class A Shares (or, at our option, a cash equivalent), to the extent that we determine that they have become economically equivalent to Och-Ziff Operating Group A Units. See Note 19 to our consolidated financial statements included in this report for additional information regarding the terms of the Och-Ziff Operating Group P Units.

We are party to a registration rights agreement, as amended, with our executive managing directors pursuant to which we granted them certain demand and "piggyback" registration rights with respect to the resale of all Class A Shares delivered in exchange for Och-Ziff Operating Group A Units or otherwise held from time to time by executive managing directors that would be deemed affiliates (as such term is defined in Rule 144 of the Securities Act) of the Company, including after an exchange of Och-Ziff Operating Group P Units.

RSUs may be settled at the election of a majority of our Board of Directors in Class A Shares or cash. Subject to continued employment over the vesting period, the underlying Class A Shares will be issued, or cash in lieu thereof will be paid, as such RSUs vest. We filed registration statements on Forms S-8 to register an aggregate of 67,188,267 Class A Shares reserved for issuance under our Amended and Restated 2007 Equity Incentive Plan and a registration statement on Form S-8 to register an aggregate of 75,000,000 Class A Shares reserved for issuance under our 2013 Incentive Plan (in each case, not including automatic annual increases thereto). As a result, any Class A Shares issued in respect of the RSUs will be freely transferable by non-affiliates upon issuance and by affiliates under Rule 144, without regard to holding period limitations.

As of December 31, 2016, DIC Sahir Limited ("DIC") owned 29,953,094 of our Class A Shares, which it purchased from us concurrent with the consummation of our IPO pursuant to a Securities Purchase and Investment Agreement. The transfer restrictions originally imposed by such agreement no longer apply to any of DIC's Class A Shares, and DIC will be able to sell these Class A Shares.

Our executive managing directors' beneficial ownership of Class B Shares, our shareholders' agreement, the tax receivable agreement and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our executive managing directors own all of our Class B Shares, which as of December 31, 2016, represent approximately 61.7% of the total combined voting power of our Company. In addition, our executive managing directors have granted an irrevocable proxy to vote all of such shares to the Class B Shareholder Committee (the sole member of which is currently Mr. Och) as it may determine in its sole discretion. As a result, Mr. Och is currently able to control all matters requiring the approval of shareholders and will be able to prevent a change in control of our Company. In addition, under the shareholders' agreement entered into in connection with the IPO, the Class B Shareholder Committee has approval rights with respect to certain actions of our Board of Directors, including actions relating to a potential change in control, so long as our executive managing directors continue to hold at least 40% of our total combined voting power, and has the ability to initially designate five of the seven nominees to our Board of Directors, and, under our operating agreement, the Class B Shareholder Committee will have certain consent rights with respect to structural and other changes involving our Company. See “—Risks Related to Our Organization and Structure—Control by Mr. Och of the total combined voting power of our shares could cause or prevent us from engaging in certain transactions, which could materially adversely affect the market price of the Class A Shares or deprive our Class A Shareholders of an opportunity to receive a premium as part of a sale of our Company.”

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or any successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain prescribed assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. The provisions may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders.

Further, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement provides for a staggered board of directors, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our Board of Directors to thwart a takeover attempt. The market price of our Class A Shares could be materially adversely affected to the extent that Mr. Och's control over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

Finally, some provisions of Delaware law may delay or prevent a transaction that would cause a change in our control. In this regard, Section 203 of the DGCL restricts certain business combinations with interested stockholders in certain situations. In general, this statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction by which that person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of voting stock. While Section 203 does not apply to limited liability companies, such companies may elect to utilize it. Although we currently have elected not to utilize Section 203, we may in the future determine to do so.

Risks Related to Taxation

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Class A Shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Class A

Shares may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, change the character or treatment of portions of our income (including, for instance, treating carried interest income as entirely ordinary income), affect the tax considerations of an investment in us and adversely affect an investment in our Class A Shares. “Carried interest” is a term often used in the marketplace as a general reference to describe a general partner’s right to receive its incentive income in the form of a profit allocation eligible for capital gains tax treatment (to the extent that the carried interest consists of capital gains). See “—Legislation changing the treatment of carried interest has been considered that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Our structure also is subject to other potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.”

Our organizational documents and agreements permit the Board of Directors to modify our operating agreement from time to time, without the consent of the holders of Class A Shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Class A Shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders’ beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Class A Shares.

Possible U.S. federal income tax reform could have uncertain effects.

The new administration and the Republican members of the U.S. House of Representatives have stated that one of their top legislative priorities is significant reform of the Code, including significant changes to taxation of business entities and the deductibility of interest expense and capital investment. There is uncertainty as to the likelihood, timing and details of any such tax reform and the effect of any potential tax reform on us or an investment in our Class A Shares, and we cannot, at this time, determine how any such changes will affect us, holders of our Class A Shares or any of the entities or assets in which we invest.

Legislation changing the treatment of carried interest has been considered that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Our structure also is subject to other potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

A number of legislative proposals have been considered by past Congresses that would have characterized some or all of the income recognized from carried interests as ordinary income and would have treated such income as non-qualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes after a transition period or requiring us to restructure our operations to earn such non-qualifying income through taxable subsidiary corporations. In addition, versions of the prior proposals could have, if enacted, (i) prevented us from completing certain types of internal reorganization transactions on a tax-free basis and acquiring other asset management companies on a tax-free basis, (ii) subjected holders of Class A Shares to tax on our conversion into a corporation or restructuring after the transition period, and (iii) increased the portion of any gain realized from the sale or other disposition of a Class A Share that is treated as ordinary income rather than capital gain. Former Representative David Camp, then Chairman of the House Committee on Ways and Means, released a discussion draft of proposed legislation in the past that would have, among other things, prevented us from qualifying for treatment as a partnership and characterized some or all of the income we may earn from carried interests as ordinary income. The new administration and leaders in Congress have indicated their desire to pursue comprehensive tax reform and the treatment of carried interests in such legislation is unclear.

States, including New York, have also considered legislation to increase taxes with respect to carried interests and, as a result of widespread budget deficits, several states have evaluated proposals to subject partnerships to entity level taxation through

the imposition of state income, franchise or other forms of taxation. More broadly, Congress and the administration may consider potentially significant changes to various aspects of the tax law, including the deductibility of certain expenses and tax treatment of certain entities.

If the carried interest proposals or former Chairman Camp's proposal described above were to be enacted into law or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or otherwise impose additional taxes, Class A Shareholders would be negatively affected because we would incur a material increase in our tax liability as a public company from the date any such changes applied to us, which likely would result in a reduction in the value of our Class A Shares.

You may be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions from us.

So long as we are not required to register as an investment company under the 1940 Act and 90% of our gross income for each taxable year constitutes "qualifying income" within the meaning of the Code on a continuing basis, we will be treated, under current law, as a partnership for U.S. federal income tax purposes and not as an association or a publicly traded partnership taxable as a corporation. You may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on your allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow-through basis) for each of our taxable years ending with or within your taxable year, regardless of whether or not you receive cash distributions from us. You may not receive cash distributions equal to your allocable share of our net taxable income or even the tax liability that results from that income. Even in cases where we make cash distributions, our taxable income and losses will be apportioned among Class A Shareholders in a manner that may not correspond with the timing of cash distributions. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation, which we refer to as "CFC," and a Passive Foreign Investment Company, which we refer to as "PFIC," may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A Shares that are United States persons will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the IRS has granted us limited relief, each holder of our Class A Shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A Shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

There can be no assurance that amounts paid as distributions on Class A Shares will be sufficient to cover the tax liability arising from ownership of Class A Shares.

Any distributions paid on Class A Shares will not take into account your particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay your full amount of tax based upon your share of our net taxable income. In addition, the actual amount and timing of distributions will always be subject to the discretion of our Board of Directors and we cannot assure you that we will in fact pay cash distributions as currently intended. In particular, the amount and timing of distributions will depend upon a number of factors, including, among others:

- General business and economic conditions and our strategic plans and prospects.
- Amounts necessary or appropriate to provide for the conduct of our business, including to pay operating and other expenses.
- Amounts necessary to make appropriate investments in our business and our funds and the timing of such investments.
- Our actual results of operations and financial condition.
- Restrictions imposed by our operating agreement and Delaware law.
- Contractual restrictions, including restrictions imposed by our Revolving Credit Facility and payment obligations under our tax receivable agreement.

- Cash payments to our executive managing directors, including distributions in respect of their Class C Non-Equity Interests, that we may make in connection with awards under our PIP or otherwise, and compensatory payments made to our employees.
- The amount of cash that is generated by our investments.
- Cash needed to fund liquidity requirements.
- Contingent liabilities.
- Other factors that our Board of Directors deems relevant.

Even if we do not distribute cash in an amount that is sufficient to fund your tax liabilities, you will still be required to pay income taxes on your share of our taxable income.

If we were to be treated as a corporation for U.S. federal income tax purposes, the value of the Class A Shares may be materially adversely affected.

We have not requested, and do not plan to request, a ruling from the IRS on our treatment as a partnership for U.S. federal income tax purposes, or on any other matter affecting us. Under current law and assuming full compliance with the terms of our operating agreement (and other relevant documents), we believe that we would be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes.

In general, if an entity that would otherwise be classified as a partnership for U.S. federal income tax purposes is a “publicly traded partnership” (as defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes “qualifying income” within the meaning of the Code and it is not required to register as an investment company under the 1940 Act. We refer to this exception as the “qualifying income exception.”

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest and dividends (including dividends from Och-Ziff Corp), capital gains and other types of qualifying income, such as income from notional principal contracts, securities loans, options, forward contracts and future contracts. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of the Class A Shares and holders of the Class A Shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Moreover, dividends to holders of the Class A Shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flows and the after-tax returns for holders of Class A Shares and thus could result in a substantial reduction in the value of the Class A Shares.

Tax gain or loss on disposition of our Class A Shares could be more or less than expected.

If you sell your Class A Shares, you will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those Class A Shares. Prior distributions to you in excess of the total net taxable income allocated to you, which decreased the tax basis in your Class A Shares, will in effect become taxable income to you if the Class A Shares are sold at a price greater than your tax basis in those Class A Shares, even if the price is less than the original cost.

We cannot match transferors and transferees of our Class A Shares, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could materially adversely affect the value of our Class A Shares.

Because we cannot match transferors and transferees of Class A Shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could materially adversely affect the amount of tax benefits available to our holders. It also could affect the timing of these tax benefits or the amount of gain on the sale of Class A Shares and could have a negative impact on the value of our Class A Shares or result in audits of and adjustments to our Class A Shareholders' tax returns.

New rules regarding U.S. federal income tax liability arising from IRS audits could adversely affect shareholders.

For taxable years of the Company beginning on or after January 1, 2018, U.S. federal income tax liability arising from an IRS audit will be borne by the Company, unless certain alternative methods are available and the Company elects to utilize them. Under the new rules, it is possible that shareholders or the Company itself may bear responsibility for taxes attributable to adjustments to the taxable income of the Company with respect to tax years that closed before the shareholder owned shares in the Company. Accordingly, this new legislation may adversely affect certain shareholders in certain cases. These new rules differ from the existing rules, which generally provide that tax adjustments only affect the persons who were shareholders in the tax year in which the item was reported on the Company's tax return. The changes created by these new rules are uncertain and in many respects depend on the promulgation of future regulations or other guidance by the IRS or the U.S. Treasury.

As we currently do not intend to make, or cause to be made, an otherwise available election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of OZ Advisors II, a holder of Class A Shares could be allocated more taxable income in respect of those shares prior to disposition than if such an election were made.

We have not made and currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Code with respect to the Registrant or OZ Advisors II. Without such an election, there will generally be no adjustment to the basis of the assets of OZ Advisors II upon our acquisition of interests in OZ Advisors II in connection with an exchange of Och-Ziff Operating Group A Units for Class A Shares, or to the assets of the Registrant or of OZ Advisors II upon a subsequent transferee's acquisition of Class A Shares from a prior holder of such shares, even if the purchase price for those interests or shares, as applicable, is greater than the share of the aggregate tax basis of the assets of the Registrant or OZ Advisors II attributable to those interests or units immediately prior to the acquisition. Consequently, upon a sale of an asset by the Registrant or OZ Advisors II, gain allocable to a holder of Class A Shares could include built-in gain in the asset existing at the time the Registrant acquired those interests, or such holder acquired such shares, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our Company as a partnership for federal income tax purposes.

We will be considered to have been terminated as a partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination would, among other things, result in the closing of our taxable year for all holders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the 1940 Act. In order to effect such treatment, we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may materially adversely affect our ability to operate solely to maximize our cash flows. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Och-Ziff Operating Group. In addition,

we may be unable to participate in certain corporate reorganization transactions that would be tax free to our holders if we were a corporation. To the extent we hold assets other than through the Och-Ziff Operating Group, we will make appropriate adjustments to the Och-Ziff Operating Group agreements so that distributions to our executive managing directors and us would be the same as if such assets were held at that level.

We may not be able to invest in certain assets, other than through a taxable corporation.

In certain circumstances, we or one of our subsidiaries may have an opportunity to invest in certain assets through an entity that is characterized as a partnership for U.S. federal income tax purposes, where the income of such entity may not be “qualifying income” for purposes of the publicly traded partnership rules. In order to manage our affairs so that we will meet the qualifying income exception, we may either refrain from investing in such entities or, alternatively, we may structure our investment through an entity classified as a corporation for U.S. federal income tax purposes. If the entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its interest in the entity in which the opportunistic investment has been made, as the case may be, and such income taxes would reduce the return on that investment.

The IRS could assert that we are engaged in a U.S. trade or business and that some portion of our income is properly treated as effectively connected income, which we refer to as “ECI,” with respect to non-U.S. holders of Class A Shares. Moreover, certain REIT dividends and other stock gains may be treated as effectively connected income with respect to non-U.S. holders of Class A Shares.

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business and that some portion of our income is properly treated as ECI with respect to non-U.S. holders. Moreover, dividends paid by an investment that we make in a Real Estate Investment Trust, which we refer to as a “REIT,” that is attributable to gains from the sale of U.S. real property interests will, subject to certain exceptions, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. In addition, certain income of non-U.S. holders from U.S. sources not connected to any such U.S. trade or business conducted by us could be treated as ECI. To the extent our income is treated as ECI, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income and would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business and any other income treated as ECI, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. holders that are treated as corporations for U.S. federal income tax purposes may also be subject to a 30% branch profits tax on such income.

Class A Shareholders may be subject to foreign, state and local taxes and return filing requirements as a result of investing in our Class A Shares.

While it is expected that our method of operation will not result in a determination that the holders of our Class A Shares, solely on account of their ownership of Class A Shares, are engaged in trade or business so as to be taxed on any part of their allocable shares of our income or subjected to tax return filing requirements in any jurisdiction in which we conduct activities or own property, there can be no assurance that the Class A Shareholders, on account of owning Class A Shares, will not be subject to certain taxes, including foreign, state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes, imposed by the various jurisdictions in which we conduct activities or own property now or in the future, even if the Class A Shareholders do not reside, or are not otherwise subject to such taxes, in any of those jurisdictions. Consequently, Class A Shareholders also may be required to file foreign, state and local income tax returns in some or all of these jurisdictions. Furthermore, Class A Shareholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Class A Shareholder to file all United States federal, foreign, state and local tax returns that may be required of such Class A Shareholder.

Our delivery of required tax information for a taxable year may be subject to delay, which may require a Class A Shareholder to request an extension of the due date for their income tax returns.

We have agreed to use reasonable efforts to furnish to you tax information (including Schedule K-1) which describes your allocable share of our income, gains, losses and deductions for our preceding taxable year. Delivery of this information by us will be subject to delay in the event of, among other reasons, the late receipt of any necessary tax information from lower-tier entities. It is therefore possible that, in any taxable year, our shareholders will need to apply for extensions of time to file their tax returns.

An investment in Class A Shares will give rise to UBTI to certain tax-exempt holders of Class A Shares.

Due to ownership interests we will hold in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, which will incur indebtedness or may engage in a trade or business, we will derive unrelated business taxable income, which we refer to as “UBTI,” from “debt-financed” property or from such trade or business, as applicable, and, thus, an investment in Class A Shares will give rise to UBTI to certain tax-exempt holders of Class A Shares. Och-Ziff Holding may borrow funds from Och-Ziff Corp or third parties from time to time to make investments. These investments will give rise to UBTI from “debt-financed” property.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. U.S. holders of Class A Shares indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences.

Special tax considerations may apply to mutual fund investors.

U.S. mutual funds that are treated as regulated investment companies, or RICs, for U.S. federal income tax purposes are required, among other things, to meet an annual 90% gross income and a quarterly 50% asset value test under Section 851(b) of the Code to maintain their favorable U.S. federal income tax status. The treatment of an investment by a RIC in Class A Shares for purposes of these tests will depend on whether our partnership will be treated as a “qualified publicly traded partnership.” If our partnership is so treated, then the Class A Shares themselves are the relevant assets for purposes of the 50% asset value test and the net income from the Class A Shares is the relevant gross income for purposes of the 90% gross income test. If, however, our partnership is not so treated, then the relevant assets are the RIC’s allocable share of the underlying assets held by our partnership and the relevant gross income is the RIC’s allocable share of the underlying gross income earned by our partnership. Whether our partnership will qualify as a “qualified publicly traded partnership” depends on the exact nature of its future investments, but we believe our partnership is not a “qualified publicly traded partnership.” We expect, however, that at least 90% of our annual gross income from the underlying assets held by our partnership will consist of dividends, interest and gains from the sale of securities or other income that qualifies for the RIC gross income test described above. As discussed above under “— You may be subject to U.S. federal income tax on your share of our taxable income, regardless of whether you receive any cash distributions from us,” RICs investing in Class A Shares may recognize income for U.S. federal income tax purposes without receiving a corresponding cash distribution. RICs should consult their own tax advisors about the U.S. tax consequences of an investment in Class A Shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are located in leased office space in New York. We also lease space for our operations in London, Hong Kong, Mumbai, Beijing, Shanghai and Houston. The terms of these leases vary, but most are long term. We

believe that our existing facilities are adequate to meet our current requirements and we anticipate that suitable additional or substitute space will be available, as necessary, upon favorable terms.

Item 3. Legal Proceedings

We are from time to time involved in litigation, investigations, inquiries, disputes, and other potential 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—Risks Related to Our Business—Extensive regulation of our business affects our activities and creates the potential for significant liabilities and penalties. Our reputation, business, financial condition or results of operations could be materially affected by regulatory issues,” “—Increased regulatory focus in the United States could result in additional burdens on our business” and “—Recent regulatory changes in jurisdictions outside the United States could adversely affect our business.” See Note 17 to our consolidated financial statements included in this report for additional information.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Registrant's Common Equity

Our Class A Shares are listed and traded on the NYSE under the symbol "OZM." The following table presents information on the high and low last reported sales prices, as reported on the NYSE for our Class A Shares for the periods presented:

	Price Range of Our Class A Shares	
	High	Low
2016		
First quarter	\$ 6.45	\$ 3.48
Second quarter	\$ 4.24	\$ 3.30
Third quarter	\$ 4.49	\$ 3.29
Fourth quarter	\$ 4.08	\$ 2.84
2015		
First quarter	\$ 12.95	\$ 10.73
Second quarter	\$ 13.30	\$ 12.17
Third quarter	\$ 12.54	\$ 8.60
Fourth quarter	\$ 8.68	\$ 5.27

Our Class B Shares are not listed on the NYSE and there is no, and we do not expect there would be any, other established trading market for these shares. All of our Class B Shares are owned by our executive managing directors and have no economic rights, but entitle holders to one vote per share on all matters submitted to a vote of our Class A Shareholders.

As of February 23, 2017, there were 9 holders of record of our Class A Shares. A substantially greater number of holders of our Class A Shares are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Dividends and Distributions" for information regarding dividends paid on our Class A Shares, as well as information on the declaration and payment of future dividends.

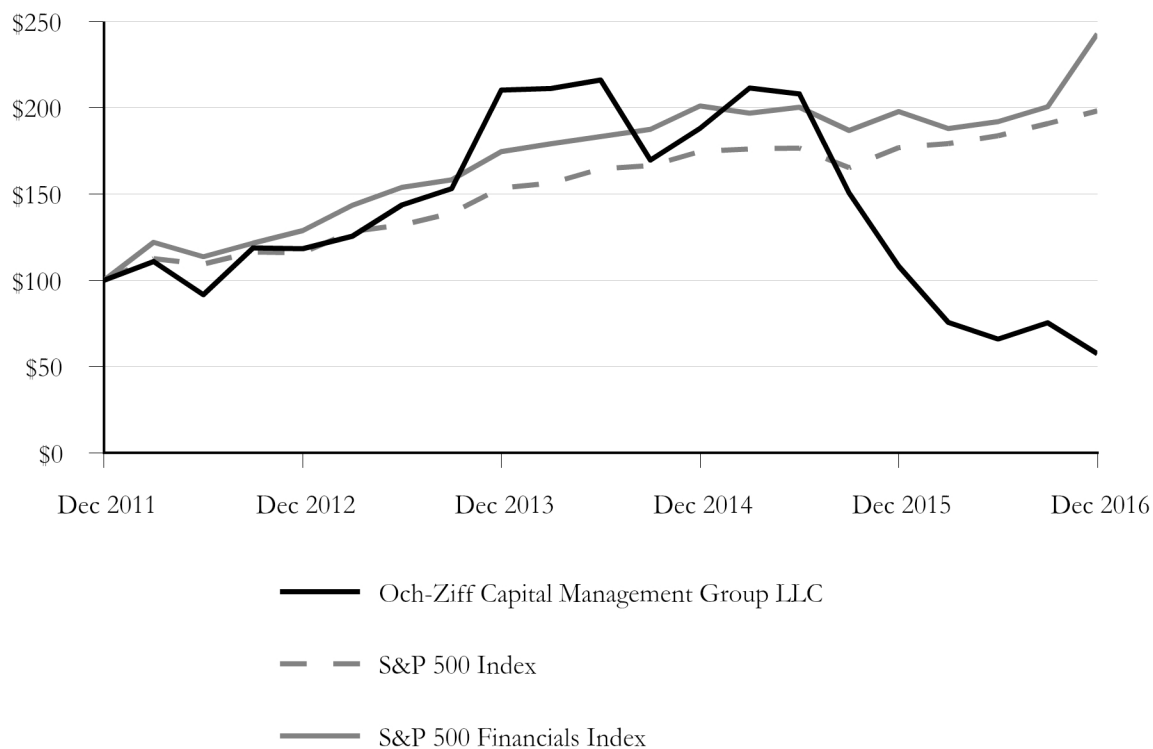
Recent Sales of Unregistered Securities

None.

OZM Stock Performance

The line graph and table below compares the cumulative total return on our Class A Shares with the cumulative total return of the Standard & Poor's ("S&P") 500 Index and the S&P 500 Financials Index for the period of December 31, 2011 through December 31, 2016. The graph and table assume that \$100 was invested simultaneously on December 31, 2011 in our Class A Shares, the S&P 500 Index and the S&P 500 Financials Index, respectively, that these investments were held until December 31, 2016, and that all dividends were reinvested. The past performance of our Class A Shares is not an indication of future performance.

Comparison of Cumulative Total Return



	Period Ended December 31,					
	2011	2012	2013	2014	2015	2016
Och-Ziff Capital Management Group LLC	\$ 100.00	\$ 118.23	\$ 210.21	\$ 188.11	\$ 108.15	\$ 57.46
S&P 500 Index	\$ 100.00	\$ 115.99	\$ 153.54	\$ 174.54	\$ 176.94	\$ 198.09
S&P 500 Financials Index	\$ 100.00	\$ 128.74	\$ 174.56	\$ 201.06	\$ 197.91	\$ 242.93

Item 6. Selected Financial Data

	As of and for the Year Ended December 31,				
	2016	2015	2014	2013	2012
(dollars in thousands)					
Selected Operating Statement Data					
Total revenues	\$ 770,364	\$ 1,322,981	\$ 1,542,284	\$ 1,895,923	\$ 1,226,602
Total expenses	1,082,140	953,940	835,649	826,879	1,927,956
Total other income	6,675	(69,504)	143,725	282,468	212,984
Income taxes	10,886	132,224	139,048	95,687	82,861
Consolidated and Comprehensive Net (Loss) Income	(315,987)	167,313	711,312	1,255,825	(571,231)
Less: Loss (income) attributable to noncontrolling interests	193,757	(191,177)	(535,288)	(985,823)	262,200
Less: (Income) loss attributable to redeemable noncontrolling interests	(2,450)	49,604	(33,579)	(8,235)	(1,692)
Net (Loss) Income Attributable to Och-Ziff Capital Management Group LLC	(124,680)	25,740	142,445	261,767	(310,723)
Less: Change in redemption value of Preferred Units	(6,082)	—	—	—	—
Net (Loss) Income Attributable to Class A Shareholders	\$ (130,762)	\$ 25,740	\$ 142,445	\$ 261,767	\$ (310,723)
(Loss) Earnings per Class A Share					
(Loss) earnings per Class A Share - basic	\$ (0.72)	\$ 0.14	\$ 0.82	\$ 1.68	\$ (2.17)
(Loss) earnings per Class A Share - diluted	\$ (0.73)	\$ 0.14	\$ 0.80	\$ 1.62	\$ (2.17)
Weighted-average Class A Shares outstanding - basic	182,670,173	177,935,977	172,843,926	155,994,389	142,970,660
Weighted-average Class A Shares outstanding - diluted	479,987,268	180,893,947	178,179,112	468,442,690	142,970,660
Dividends Paid per Class A Share	\$ —	\$ 0.87	\$ 1.72	\$ 1.42	\$ 0.40
Selected Balance Sheet Data					
Cash and cash equivalents	\$ 329,813	\$ 254,070	\$ 250,603	\$ 189,974	\$ 162,485
Assets of consolidated Och-Ziff funds	55,205	9,416,702	7,559,180	4,711,189	2,850,754
Total assets	1,485,555	10,685,643	9,295,696	6,868,426	4,596,566
Debt obligations	577,128	443,069	440,697	383,329	386,933
Liabilities of consolidated Och-Ziff funds	15,197	7,315,917	5,580,010	3,042,395	1,297,096
Total liabilities	1,495,526	8,612,791	7,057,848	4,576,819	2,676,385
Redeemable noncontrolling interests	284,121	832,284	545,771	76,583	8,692
Shareholders' deficit attributable to Class A Shareholders	(466,021)	(415,830)	(290,759)	(133,721)	(248,921)
Shareholders' equity attributable to noncontrolling interests	171,929	1,656,398	1,982,836	2,348,745	2,160,410
Total shareholders' equity	(294,092)	1,240,568	1,692,077	2,215,024	1,911,489
Economic Income Data					
Economic Income Revenues— Non-GAAP ⁽¹⁾	\$ 730,178	\$ 849,276	\$ 1,209,756	\$ 1,630,487	\$ 1,091,467
Economic Income—Non-GAAP ⁽¹⁾	(211,575)	345,216	729,943	1,098,696	694,114
Assets Under Management					
Balance—beginning of period	\$ 45,494,861	\$ 47,534,415	\$ 40,238,812	\$ 32,603,930	\$ 28,766,340
Inflows / (outflows)	(7,993,589)	(1,176,435)	6,134,745	3,380,622	562,980
Distributions / other reductions	(888,265)	(907,879)	(943,997)	(277,111)	(83,393)
Appreciation / (depreciation)	1,267,296	44,760	2,104,855	4,531,371	3,358,003
Balance—End of Period	\$ 37,880,303	\$ 45,494,861	\$ 47,534,415	\$ 40,238,812	\$ 32,603,930

- (1) These items presented are non-GAAP financial measures that supplement, and should not be considered alternatives to, revenues, net income (loss) or cash flow from operations that have been prepared in accordance with GAAP, and are not necessarily indicative of liquidity or the cash available to fund operations. Please see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Economic Income Analysis” for important information about these non-GAAP measures.

Item 7. 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 I—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 annual report. An investment in our Class A Shares is not an investment in any of our funds.

Overview

FCPA Settlements

On September 29, 2016, we reached settlements with the DOJ and the SEC, resolving their investigations into our former private investment business in Africa and a 2007 investment by the Libyan Investment Authority in certain of our funds.

As part of the settlements, we entered into a Deferred Prosecution Agreement with the DOJ, and our subsidiary OZ Africa agreed to plead guilty to one count of conspiracy to violate the FCPA. We also agreed to settle an administrative proceeding with the SEC involving violations of the FCPA and the Advisers Act. We paid a total of \$412.1 million in penalties and disgorgement. This amount was paid in October 2016 using cash on hand and proceeds from the October 2016 sale of Preferred Units discussed below.

Preferred Units Offering

As discussed in Note 11 to our consolidated financial statements, on September 29, 2016, we entered into the Purchase Agreement with the EMD Purchasers. Pursuant to the Purchase Agreement, the EMD Purchasers agreed to purchase up to \$400.0 million of Preferred Units. In October 2016, we issued \$250.0 million of the Preferred Units to the EMD Purchasers. An additional \$150.0 million of Preferred Units were issued to the EMD Purchasers in January 2017. We used the proceeds from the Preferred Units issued in October 2016, as well as cash on hand, to pay the \$412.1 million in penalties and disgorgement related to the settlements with the SEC and the DOJ discussed above. We expect to use the proceeds from the second sale of the Preferred Units in January 2017 for working capital and general corporate purposes.

Deconsolidation on Adoption of ASU 2015-02

As a result of the adoption of ASU 2015-02, we deconsolidated the majority of our previously consolidated funds. This resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders' equity attributable to non-controlling interests in our consolidated balance sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains of consolidated Och-Ziff funds in our consolidated statement of comprehensive income (loss). Management fees and incentive income from the previously consolidated funds are also no longer eliminated in consolidation.

We adopted ASU 2015-02 using the modified retrospective method of transition, which resulted in an effective date of adoption of January 1, 2016, and a cumulative effect adjustment to opening equity to reflect the impacts of adoption. We did not restate prior-period results. The impact to our opening retained earnings was driven by the cumulative effect of a change in incentive income recognition for the funds no longer consolidated as further discussed below.

The net impact on our results is that incentive income from these funds will now be recognized when such amounts are no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to us rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.

The adoption of ASU 2015-02 and the resulting deconsolidation of the majority of the previously consolidated funds had no impact on our Economic Income or other non-GAAP measures discussed throughout this MD&A.

Overview of Our Financial Results

We reported GAAP net loss attributable to Class A Shareholders of \$130.8 million for the 2016 full year, compared to net income of \$25.7 million for the 2015 full year. The year over year decrease was primarily driven by the FCPA settlements expense of \$412.1 million incurred in 2016, as well as lower management fees, partially offset by lower income taxes and higher incentive income. Lower compensation and benefits expenses also partially offset the year-over-year decline, as lower equity-based compensation expense more than offset higher bonus expense.

We reported a loss on an Economic Income basis of \$211.6 million for the 2016 full year, compared to income of \$345.2 million for the 2015 full year. The decrease was mainly driven by the FCPA settlements expense of \$412.1 million incurred in 2016, as well as lower management fees and higher compensation and benefits expenses, partially offset by higher incentive income.

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 \$37.9 billion as of December 31, 2016. Longer-dated assets under management, which are those subject to initial commitment periods of three years or longer, were \$17.0 billion, or 45%, of our total assets under management as of December 31, 2016. Assets under management in our dedicated credit, real estate and other strategy-specific funds were \$16.8 billion, comprising 44% of assets under management as of December 31, 2016.

Assets under management in our multi-strategy funds totaled \$21.1 billion as of December 31, 2016, decreasing 29%, or \$8.4 billion, year-over-year. This change was driven by net capital outflows of \$9.0 billion, primarily in the OZ Master Fund, our largest multi-strategy fund, partially offset by performance-related appreciation of \$536.6 million. Our multi-strategy funds experienced elevated redemptions during 2016 and into early 2017 as a result of the FCPA settlements, as well as the overall redemption cycle currently affecting the hedge fund industry.

OZ Master Fund generated a gross return of 6.5% and a net return of 3.8% year-to-date through December 31, 2016. These returns were driven by the fund's merger arbitrage, credit-related and convertible and derivative arbitrage strategies, partially offset by weaker performance in long/short equity special situations due to losses during the first quarter. 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 \$13.4 billion as of December 31, 2016, increasing \$811.7 million, or 6%, year-over-year. This change was driven by capital net inflows of \$744.0 million and performance-related appreciation of \$753.1 million, partially offset by \$685.3 million of distributions and other reductions in our closed-end opportunistic credit funds.

Assets under management in our opportunistic credit funds were \$5.4 billion as of December 31, 2016. OZ Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 21.1% and a net return of 18.0% year-to-date through December 31, 2016. These returns were driven in part by realizations in structured credit and successful resolutions in various distressed situations in corporate credit. Assets under management for the fund were \$1.8 billion as of December 31, 2016.

Assets under management in Institutional Credit Strategies were \$8.0 billion as of December 31, 2016, increasing \$777.8 million, or 11%, year-over-year. The increase was primarily driven by two additional CLOs that closed in the 2016 fourth quarter, including our first European CLO. We also refinanced two existing deals during the fourth quarter. We now manage 15 CLOs as of December 31, 2016 and continue to post top quartile CLO performance, with inception to date annualized cash-on-cash equity returns in excess of 20%.

Assets under management in our real estate funds totaled \$2.2 billion as of December 31, 2016, increasing \$123.4 million year-over-year. This increase was driven by additional closings in Och-Ziff Real Estate Credit Fund I, partially

offset by distributions from Och-Ziff Real Estate Funds I and II. Since inception, the net internal rate of return (“IRR”) for Och-Ziff Real Estate Fund II (for which the investment period ended in 2014) was 21.3% through December 31, 2016, and 15.6% net for Och-Ziff Real Estate Fund I (for which the investment period ended in 2010).

Market Environment

Our ability to successfully generate consistent, positive, absolute returns is dependent on our ability to execute each fund’s investment strategy or strategies. Each investment strategy may be materially affected by conditions in the global markets. Global markets were relatively volatile during 2016, as uncertainty surrounding notable macroeconomic and political events largely influenced performance across regions.

In the U.S., concerns over global growth, coupled with the Bank of Japan’s (“BOJ”) introduction of a negative interest rate policy and diminished expectations for rate hikes from the U.S. Federal Reserve, contributed to volatility in financial markets during the first half of 2016. The U.S. election in early November was the pivotal event of the second half of the year, with the outcome of the election driving sharp moves across sectors and asset classes.

In Europe, market internals were relatively erratic heading into the beginning of 2016, with policy announcements from the European Central Bank, U.S. Federal Reserve and the Chinese Central bank driving price dispersion. Financial assets experienced divergent performance following the outcome of the Brexit vote, indicative of the market’s struggle to digest the economic and political ramifications of Britain’s exit from the E.U. The British Pound reached multi-decade lows, U.K. stocks rallied, European stocks slumped and the yield on the U.S. 10-year Treasury note reached an all-time low in early July. Separately, the outcome of the U.S. presidential election, coupled with market jitters ahead of the Italian constitutional referendum vote, contributed to Europe’s under-performance against global equity markets during November. However, European equity markets ultimately ended the year on a high note, rallying sharply as the market took solace from the end of uncertainty following the referendum vote.

In Asia, equity markets in China suffered significant losses at the onset of 2016. In the face of market pressures, the People’s Bank of China moved in strongly to stabilize the currency and aid the real estate market. Economic data rebounded at first, but ultimately moderated by the end of the first half of 2016, and the housing market softened from strong levels. During the same time frame, the BOJ surprised the market by introducing negative interest rates for the first time, causing the yen to strengthen considerably. During the second half of the year, equity markets in Asia rose sharply, as concerns surrounding the U.K. referendum were ultimately shrugged off. Japan also remained strong, attributable in part to the ETF buying program implemented by the BOJ in late July. Later on, the Bank of Japan announced that it would target rates while keeping its negative interest rate policy unchanged - a notable shift in policy and a significant macroeconomic development in the region. Following the U.S. presidential election, asset allocation changes were triggered globally. One of the effects, a strengthening U.S. Dollar, led to a significant rally in the U.S. Dollar versus the Japanese Yen. This move helped to drive appreciation in Japanese equities and led to outflows from less developed economies in Asia near the end of 2016.

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, Institutional Credit Strategies products, 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. Recently, our assets under management have declined and we believe this trend will likely continue to some extent for some period of time in light of the recently settled FCPA matter, as well as the current redemption trend in the hedge fund industry.

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 December 31, 2016, approximately 7% 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 51% 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 an Och-Ziff fund is an investor in another Och-Ziff 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.

	Year Ended December 31, 2016				
	December 31, 2015	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	December 31, 2016
	(dollars in thousands)				
Multi-strategy funds	\$ 29,510,248	\$ (8,962,296)	\$ —	\$ 536,596	\$ 21,084,548
Credit					
Opportunistic credit funds	5,383,629	(40,194)	(685,327)	759,390	5,417,498
Institutional Credit Strategies	7,241,680	784,165	—	(6,335)	8,019,510
Real estate funds	2,048,559	283,408	(152,655)	(7,366)	2,171,946
Other	1,310,745	(58,672)	(50,283)	(14,989)	1,186,801
Total	\$ 45,494,861	\$ (7,993,589)	\$ (888,265)	\$ 1,267,296	\$ 37,880,303

Year Ended December 31, 2015					
	December 31, 2014	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	December 31, 2015
(dollars in thousands)					
Multi-strategy funds	\$ 34,100,390	\$ (4,719,269)	\$ —	\$ 129,127	\$ 29,510,248
Credit					
Opportunistic credit funds	5,098,600	1,121,104	(727,190)	(108,885)	5,383,629
Institutional Credit Strategies	5,166,734	2,077,404	—	(2,458)	7,241,680
Real estate funds	2,022,399	197,887	(165,587)	(6,140)	2,048,559
Other	1,146,292	146,439	(15,102)	33,116	1,310,745
Total	\$ 47,534,415	\$ (1,176,435)	\$ (907,879)	\$ 44,760	\$ 45,494,861

Year Ended December 31, 2014					
	December 31, 2013	Inflows / (Outflows)	Distributions / Other Reductions	Appreciation / (Depreciation)	December 31, 2014
(dollars in thousands)					
Multi-strategy funds	\$ 31,768,578	\$ 828,131	\$ —	\$ 1,503,681	\$ 34,100,390
Credit					
Opportunistic credit funds	4,305,438	749,093	(501,935)	546,004	5,098,600
Institutional Credit Strategies	2,605,628	2,553,940	—	7,166	5,166,734
Real estate funds	970,568	1,475,219	(414,234)	(9,154)	2,022,399
Other	588,600	528,362	(27,828)	57,158	1,146,292
Total	\$ 40,238,812	\$ 6,134,745	\$ (943,997)	\$ 2,104,855	\$ 47,534,415

In 2016, our funds experienced performance-related appreciation of \$1.3 billion and net outflows of \$8.0 billion, which was comprised of \$1.6 billion of gross inflows and \$9.6 billion of gross outflows due to redemptions. We also had \$888.3 million in distributions and other reductions, which were primarily related to investors in our closed-end opportunistic credit and real estate funds. Our largest sources of gross inflows related primarily to two additional CLOs launched in Institutional Credit Strategies, as well as additional commitments to Och-Ziff Real Estate Credit Fund I. We experienced elevated redemptions in our multi-strategy funds during 2016 as a result of the FCPA settlements, as well as the overall redemption cycle currently affecting the hedge fund industry. Our capital net outflows continued to be elevated in early 2017, due to additional redemptions in our multi-strategy funds as a result of the same factors identified above, resulting in assets under management decreasing to an estimated \$33.6 billion as of February 1, 2017. Excluding CLOs, pensions and fund-of-funds were the largest sources of our gross inflows, while fund-of-funds, pensions and private banks were our largest sources of gross outflows during 2016.

In 2015, our funds experienced performance-related appreciation of \$44.8 million and net outflows of \$1.2 billion, which was comprised of \$5.5 billion of gross inflows and \$6.7 billion of gross outflows due to redemptions. Distributions and other reductions were \$907.9 million, which was driven by \$740.3 million in distributions to investors in our closed-end opportunistic credit and real estate funds, and a \$152.4 million reduction in the OZ European Credit Opportunities Fund as a result of the expiration of the fund's investment period. Our gross inflows included \$2.4 billion within Institutional Credit Strategies primarily related to four CLOs that closed during 2015. Excluding CLOs, pension funds were the largest source of our gross inflows and gross outflows during 2015.

In 2014, our funds experienced performance-related appreciation of \$2.1 billion, net inflows of \$6.1 billion, which was comprised of \$10.7 billion of gross inflows and \$4.6 billion of gross outflows due to redemptions. Distributions and other reductions of \$944.0 million, which was driven by a \$334.9 million reduction in Och-Ziff Real Estate Fund II as a result of the expiration of the fund's investment period and \$609.1 million in distributions to investors in our closed-end opportunistic credit, real estate and other funds that are in the process of winding down. The largest drivers of our gross inflows in 2014 were investors in our CLOs within Institutional Credit Strategies and direct allocations from private banks and pension funds, but we also saw growth from fund-of-funds and corporate, institutional and other. Gross inflows included \$2.5 billion related to the

launch of four additional CLOs within Institutional Credit Strategies and \$1.5 billion in commitments to Och-Ziff Real Estate Fund III. Redemptions from fund-of-funds, pensions and private banks were the largest driver of our gross outflows in 2014.

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 fourth 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.

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Weighted-average assets under management	\$ 40,405,332	\$ 46,094,097	\$ 44,402,016
Average management fee rates	1.22%	1.39%	1.46%

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. Specifically, the rate decline was driven primarily by lower assets under management in our multi-strategy funds as a percentage of our total 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.

Effective October 1, 2016, we reduced the management fee rate for existing fund investors in virtually all of our multi-strategy assets under management. As a result, we expect the average management rate for our multi-strategy funds to decline in the first quarter of 2017. We made this change to our management fee rates to further strengthen the relationships we have with our clients, with whom we have built a strong partnership over many years. We also want to ensure that we remain competitive on management fees, which have been gradually trending down for the hedge fund industry. We did not adjust our incentive income rate, which remains unchanged at 20%.

Fund Performance Information

The tables below present performance information for the funds we manage. All of our funds are managed by the Och-Ziff 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 1.00% to 2.25% of assets under management. For the fourth quarter of 2016, our multi-strategy funds had an average management fee rate of 1.34%.

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 certain of these assets are subject to hurdle rates (generally equal to the 3-month T-bill or LIBOR rate). However, once the investment performance has exceeded the hurdle rate for a portion of these assets, we may receive a preferential “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these assets.

Fund	Assets Under Management as of			Returns for the Year Ended December 31,						Annualized Returns Since Inception Through December 31, 2016	
	December 31,			2016		2015		2014			
	2016	2015	2014	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(dollars in thousands)										
OZ Master Fund ⁽¹⁾	\$ 17,671,856	\$ 24,297,106	\$ 27,884,293	6.5%	3.8%	1.6%	-0.4%	9.0%	5.5%	16.9% ⁽¹⁾	11.8% ⁽¹⁾
OZ Asia Master Fund	937,232	1,200,213	1,337,913	-3.8%	-5.4%	13.8%	9.6%	7.5%	4.0%	9.0%	5.0%
OZ Europe Master Fund	425,203	899,388	1,238,706	5.8%	3.7%	8.9%	5.8%	4.1%	1.8%	11.7%	7.7%
OZ Enhanced Master Fund	817,971	1,130,747	1,135,868	10.2%	6.8%	0.9%	-1.1%	12.1%	7.9%	11.8%	7.7%
Och-Ziff European Multi-Strategy UCITS Fund	102,359	317,511	346,004	-0.8%	-2.7%	8.7%	5.6%	-4.7%	-6.7%	4.7%	1.9%
Other funds	1,129,927	1,665,283	2,157,606	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
	\$ 21,084,548	\$ 29,510,248	\$ 34,100,390								

n/m not meaningful

- (1) The annualized returns since inception are those of the Och-Ziff 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 December 31, 2016, the gross and net annualized returns since the OZ Master Fund's inception on January 1, 1998 were 13.0% and 8.8%, respectively.

The \$8.4 billion, or 29%, year over year decrease in assets under management in our multi-strategy funds was primarily due to capital net outflows of \$9.0 billion, primarily from the OZ Master Fund, the Company's largest multi-strategy fund, partially offset by performance-related appreciation of \$536.6 million. The largest sources of gross outflows from our multi-strategy funds were attributable to fund-of-funds, private banks and pensions. The Company experienced elevated redemptions during 2016 and into early 2017 as a result of the FCPA settlements, as well as the overall redemption cycle currently affecting the hedge fund industry.

In 2016, the OZ Master Fund generated a gross return of 6.5% and a net return of 3.8%. These returns were driven by the fund's merger arbitrage, credit-related and convertible and derivative arbitrage strategies, partially offset by weaker performance in long/short equity special situations due to losses during the first quarter.

Despite a challenging start to 2016, OZ Master Fund saw the positive momentum that began in the second quarter carry through to the end of the year, generating positive performance in each of the last six months of the year. OZ Master Fund's

merger arbitrage, convertible and derivative arbitrage, corporate credit and structured credit investment strategies each generated strong year-to-date gains through December 31, 2016. In merger arbitrage, OZ Master Fund benefited from positive performance in a number of positions, contributing to the investment strategy's year-to-date gross return of +2.0%. As we demonstrated throughout 2016, we are drawn to arbitrage situations where we have strong fundamental or industry views and where we have a differentiated view on the risk/reward dynamics. In general, while merger arbitrage spreads remain tight, deal activity is robust and we continue to find select situations that we think are materially mispriced.

Convertible and derivative arbitrage also performed well during the year, driven by profitable trades on certain core positions and positive performance in a handful of existing exposures. Year-to-date, convertible and derivative arbitrage has generated a gross return of +2.0%.

In OZ Master Fund's credit strategies, we added selectively to high-conviction positions, capitalized on the strength of certain sectors and resolved a number of idiosyncratic situations over the course of 2016. Year-to-date, the corporate credit and structured credit strategies were both up +3.8% on a gross basis.

OZ Master Fund's long/short equity special situations strategy recovered some of its first quarter losses during the second half of 2016, with gains being driven by a mix of situation-specific events and market factors. Year-to-date, performance in long/short equity special situations was -1.5%. While long/short equity special situations still detracted from OZ Master Fund's performance for the year, the magnitude of the losses were reduced materially over the last few months of the year.

We continue to actively monitor OZ Master Fund's capital allocations across investment strategies and geographies. Long/short equity special situations strategy remained the largest allocation in OZ Master Fund. This allocation is not reflective of a strong directional view of the current market. We believe this is an environment in which disciplined, bottom-up investment selection is the best approach to generating returns.

In 2015, the OZ Master Fund generated a gross return of 1.6% and net return of -0.4%. On a gross basis, U.S. merger arbitrage and long/short equity special situations in Asia were the largest contributors to the return. Our credit strategies globally made a slightly positive contribution, the returns were partially offset by weak performance in U.S. long/short equity special situations.

Credit

	Assets Under Management as of December 31,		
	2016	2015	2014
	(dollars in thousands)		
Opportunistic credit funds	\$ 5,417,498	\$ 5,383,629	\$ 5,098,600
Institutional Credit Strategies	8,019,510	7,241,680	5,166,734
	<u>\$ 13,437,008</u>	<u>\$ 12,625,309</u>	<u>\$ 10,265,334</u>

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 0.50% to 1.75% of

the net asset value of these funds. For the fourth quarter of 2016, our opportunistic credit funds had an average management fee rate of 0.89%.

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 are 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 (generally 3% to 8%). However, once the investment performance has exceeded the hurdle rate, we may receive a preferential “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.

Fund	Assets Under Management as of December 31,			Returns for the Year Ended December 31,						Annualized Returns Since Inception Through December 31, 2016	
	2016	2015	2014	2016		2015		2014		Gross	Net
				Gross	Net	Gross	Net	Gross	Net		
	(dollars in thousands)										
OZ Credit Opportunities Master Fund	\$ 1,818,649	\$ 1,486,241	\$ 1,206,009	21.1%	18.0%	-4.4%	-5.2%	12.4%	8.9%	17.5%	13.1%
Customized Credit Focused Platform	2,762,882	2,460,716	1,773,592	26.3%	19.8%	—%	-0.6%	17.8%	13.3%	20.2%	15.2%
Closed-end opportunistic credit funds	357,778	919,786	1,616,377	See below for return information on our closed-end opportunistic credit funds.							
Other funds	478,189	516,886	502,622	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
	<u>\$ 5,417,498</u>	<u>\$ 5,383,629</u>	<u>\$ 5,098,600</u>								

n/m not meaningful

In 2016, the assets under management in our opportunistic credit funds increased by \$33.9 million year over year, essentially flat year-over-year, as \$759.4 million of performance-related appreciation was mostly offset by \$685.3 million of distributions and other reductions in the Company’s closed-end opportunistic credit funds. In 2016, the OZ Credit Opportunities Master Fund, our global opportunistic credit fund, generated a gross return of 21.1% and a net return of 18.0%. These returns were driven in part by realizations in structured credit and successful resolutions in various distressed situations in corporate credit.

In 2015, the \$285.0 million, or 6%, year-over-year increase in our opportunistic credit funds was due to capital net inflows of \$1.1 billion, partially offset distributions and other reductions of \$727.2 million related to our closed-end opportunistic credit funds and \$108.9 million of performance-related depreciation. The capital net inflows were driven primarily by capital net inflows of \$695.7 million into the Customized Credit Focused Platform and \$364.4 million into the OZ Credit Opportunities Master Fund. In 2015, the OZ Credit Opportunities Master Fund generated a gross return of -4.4% and a net return of -5.2%, as modestly positive performance in the fund’s European credit portfolio was offset by weaker performance in its U.S. portfolio.

The table below presents assets under management, investment performance and other information for our closed-end opportunistic credit funds. Incentive income related to these funds is generally equal to 20% of the cumulative realized profits attributable to each investor over the life of the fund, subject to hurdle rates (generally 5% to 10%), and is recognized at or near the end of the life of the fund when it is no longer subject to clawback. However, once the investment performance has exceeded the hurdle rate, we may receive a preferential “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 investment periods for these funds may generally be extended for an additional one to two years.

Fund (Investment Period)	Assets Under Management as of December 31,			Inception to Date as of December 31, 2016					
	2016	2015	2014	Total Commitments	Total Invested Capital ⁽¹⁾	IRR		Gross MOIC ⁽⁴⁾	
						Gross ⁽²⁾	Net ⁽³⁾		
(dollars in thousands)									
OZ European Credit Opportunities Fund (2012-2015) ⁽⁵⁾	\$ 79,760	\$ 230,662	\$ 574,602	\$ 459,600	\$ 305,487	16.6%	12.5%	1.47x	
OZ Structured Products Domestic Fund II (2011-2014) ⁽⁵⁾	110,538	301,534	434,921	326,850	326,850	19.7%	15.3%	1.93x	
OZ Structured Products Offshore Fund II (2011-2014) ⁽⁵⁾	108,822	267,429	373,082	304,531	304,531	17.0%	13.0%	1.72x	
OZ Structured Products Offshore Fund I (2010-2013) ⁽⁵⁾	6,033	23,495	31,498	155,098	155,098	24.0%	19.2%	2.1x	
OZ Structured Products Domestic Fund I (2010-2013) ⁽⁵⁾	4,836	14,621	17,080	99,986	99,986	22.9%	18.2%	1.99x	
Other funds	47,789	82,045	185,194	346,250	310,350	n/m	n/m	n/m	
	\$ 357,778	\$ 919,786	\$ 1,616,377	\$ 1,692,315	\$ 1,502,302				

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 December 31, 2016, 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 0.50% of assets under management. For the fourth quarter of 2016, our Institutional Credit Strategies products had an average management fee rate of 0.40%.

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, and OZLME is our European CLO.

	Initial Closing Date	Initial Deal Size	Assets Under Management as of December 31,		
			2016	2015	2014
			(dollars in thousands)		
CLOs					
OZLM I	July 19, 2012	\$ 510,700	\$ 497,633	\$ 499,344	\$ 468,242
OZLM II	November 1, 2012	560,100	510,557	517,301	517,050
OZLM III	February 20, 2013	653,250	611,608	613,827	613,190
OZLM IV	June 27, 2013	600,000	540,979	543,297	542,744
OZLM V	December 17, 2013	501,250	468,465	470,335	470,428
OZLM VI	April 16, 2014	621,250	597,161	598,438	592,707
OZLM VII	June 26, 2014	824,750	796,547	798,289	796,271
OZLM VIII	September 9, 2014	622,250	597,194	597,988	596,858
OZLM IX	December 22, 2014	510,208	495,532	495,643	494,244
OZLM XI	March 12, 2015	510,500	491,949	491,366	—
OZLM XII	May 28, 2015	565,650	550,642	548,452	—
OZLM XIII	August 6, 2015	511,600	496,758	493,012	—
OZLM XIV	December 21, 2015	507,420	502,862	495,798	—
OZLM XV	December 20, 2016	409,250	396,489	—	—
OZLME I	December 15, 2016	430,490	422,982	—	—
		8,338,668	7,977,358	7,163,090	5,091,734
Other funds	n/a	n/a	42,152	78,590	75,000
		\$ 8,338,668	\$ 8,019,510	\$ 7,241,680	\$ 5,166,734

In 2016, the year over year increase in assets under management was driven primarily by two new CLOs that closed in the fourth quarter of 2016, including our first European CLO. The Company also successfully refinanced two existing deals during the fourth quarter of 2016.

In 2015, the year-over-year increase in assets under management was driven primarily by the launch of four additional CLOs that year.

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 fourth quarter of 2016, our real estate funds had an average management fee rate of 0.96%.

The tables below present assets under management, investment performance and other information for our real estate funds. Incentive income related to these funds is equal to 20% of the cumulative realized profits attributable to each investor over the life of the fund, subject to hurdle rates (generally 6% to 10%). However, once the investment performance has exceeded the

hurdle rate, we may receive a preferential “catch-up” allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these funds.

Fund	Assets Under Management as of December 31,		
	2016	2015	2014
	(dollars in thousands)		
Och-Ziff Real Estate Fund I	\$ 15,871	\$ 33,752	\$ 47,187
Och-Ziff Real Estate Fund II	303,528	343,679	409,338
Och-Ziff Real Estate Fund III	1,457,722	1,447,770	1,438,000
Och-Ziff Real Estate Credit Fund I	288,344	130,150	—
Other funds	106,481	93,208	127,874
	<u>\$ 2,171,946</u>	<u>\$ 2,048,559</u>	<u>\$ 2,022,399</u>

Fund (Investment Period)	Inception to Date as of December 31, 2016									
	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⁾
	(dollars in thousands)									
Och-Ziff Real Estate Fund I ⁽⁷⁾ (2005-2010)	\$ 408,081	\$ 385,508	\$ 799,204	25.2%	15.6%	2.1x	\$ 372,720	\$ 794,976	26.5%	2.1x
Och-Ziff Real Estate Fund II ⁽⁷⁾ (2011-2014)	839,508	745,945	1,342,934	33.1%	21.3%	1.8x	552,240	1,118,989	39.4%	2.0x
Och-Ziff Real Estate Fund III ⁽⁸⁾ (2014-2019)	1,500,000	483,419	578,319	n/m	n/m	n/m	—	—	n/m	n/m
Och-Ziff Real Estate Credit Fund I ⁽⁸⁾ (2015-2019)	323,225	97,044	111,479	n/m	n/m	n/m	22,419	26,483	n/m	n/m
Other funds	241,324	140,910	189,815	n/m	n/m	n/m	37,824	92,194	n/m	n/m
	<u>\$ 3,312,138</u>	<u>\$ 1,852,826</u>	<u>\$ 3,021,751</u>				<u>\$ 985,203</u>	<u>\$ 2,032,642</u>		

Fund (Investment Period)	Unrealized Investments as of December 31, 2016		
	Invested Capital	Total Value	Gross MOIC ⁽⁶⁾
	(dollars in thousands)		
Och-Ziff Real Estate Fund I (2005-2010) ⁽⁷⁾	\$ 12,788	\$ 4,228	0.3x
Och-Ziff Real Estate Fund II (2011-2014) ⁽⁷⁾	193,705	223,945	1.2x
Och-Ziff Real Estate Fund III (2014-2019) ⁽⁸⁾	483,419	578,319	n/m
Och-Ziff Real Estate Credit Fund I (2015-2019) ⁽⁸⁾	74,625	84,996	n/m
Other funds	103,086	97,621	n/m
	<u>\$ 867,623</u>	<u>\$ 989,109</u>	

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 December 31, 2016. 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 December 31, 2016.
- (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 December 31, 2016, 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) These funds recently launched and have only invested a small portion of their committed capital; therefore, IRR and MOIC information is not presented, as it is not meaningful.

In 2016, the \$123.4 million year-over-year increase in assets under management in our real estate funds was driven primarily by additional closings in Och-Ziff Real Estate Credit Fund I, partially offset by distributions from Och-Ziff Real Estate Funds I and II. Och-Ziff Real Estate Funds I and II continue to harvest investments, realizing six investments during 2016 at 2.2x of invested capital and a gross IRR of 23.6%.

In 2015, the \$26.2 million year-over-year increase in assets under management in our real estate funds was driven by Och-Ziff Real Estate Credit Fund I and Och-Ziff Real Estate Fund III. This increase was offset by distributions and other reductions related to certain real estate funds, including Och-Ziff Real Estate Funds I and II.

Other

Our other assets under management are comprised of funds that are generally strategy-specific, including our equity, Africa and energy funds. Management fees for these funds range from 0.75% to 2.25% of assets under management, generally based on the amount of capital committed to these platforms by our fund investors. For the fourth quarter of 2016, our other funds had an average management fee rate of 0.96%.

Incentive income for our equity funds is generally 20% of realized and unrealized annual profits attributable to each investor. Incentive income related to the Africa and energy funds is generally 20% of cumulative realized profits attributable to each investor, and is subject to hurdle rates (generally 3% to 8%). Incentive income for the Africa and energy funds is generally not recognized as revenue until near the end of the life of the fund when it is no longer subject to clawback.

Longer-Term Assets Under Management

As of December 31, 2016, approximately 45% 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 gross 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, as we recognize incentive income at the end of the commitment period when amounts are no longer subject to clawback. 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.

	December 31, 2016	
	Longer-Term Assets Under Management	Accrued Unrecognized Incentive Income
	(dollars in thousands)	
Multi-strategy funds	\$ 2,372,782	\$ 23,523
Credit		
Opportunistic credit funds	4,198,939	181,290
Institutional Credit Strategies	7,977,359	—
Real estate funds	2,171,946	121,952
Other	290,538	2,593
	<u>\$ 17,011,564</u>	<u>\$ 329,358</u>

We recognize incentive income on our longer-term assets under management in our multi-strategy funds and open-end opportunistic credit funds at the end of their respective commitment periods, which are generally three to five years. Incentive income related to assets under management in our closed-end opportunistic credit funds and our real estate funds is generally

recognized near the end of the life of each fund. These funds generally begin to make distributions after the conclusion of their respective investment period, as presented in the tables above. However, these investment periods may generally be extended for an additional one to two years.

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 2% management fee would generally increase or decrease annual management fees by \$20 million. If net profits 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 the first three quarters of each year, our revenues are primarily comprised of the management fees we have earned for each respective quarter. In addition, we may recognize incentive income for assets under management for which the measurement period expired in that quarter, such as assets subject to three-year commitment periods, or incentive income related to fund investor redemptions, and these amounts may be significant. In the fourth quarter, our revenues are primarily comprised of the management fees we have earned for the quarter, as well as incentive income related to the full-year investment performance generated on assets under management that are subject to one-year commitment periods, or for other assets under management for which the commitment period expired in that quarter.

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.

Incentive Income. We earn incentive income based on the cumulative performance of our funds over a commitment period. Incentive income is typically equal to 20% of the net realized and unrealized profits attributable to each fund investor in our multi-strategy funds, open-end opportunistic credit funds and certain other funds, but it excludes unrealized gains and losses attributable to Special Investments. For our closed-end opportunistic credit funds, real estate funds and certain other funds, incentive income is typically equal to 20% of the realized profits attributable to each fund investor. For our CLOs, incentive income is typically 20% of the excess cash flows available to the holders of the subordinated notes. Our ability to earn incentive income from some of our funds may be impacted by hurdle rates as further discussed below.

For funds that we consolidate, incentive income is recognized by allocating a portion of the net income of the consolidated Och-Ziff funds to us rather than to the fund investors (noncontrolling interests). Incentive income allocated to us is not reflected as incentive income in our consolidated revenues, as these amounts are eliminated in consolidation. The allocation of incentive income to us is based on the contractual terms of the relevant fund agreements. As a result, we may recognize earnings related to our incentive income allocation from the consolidated Och-Ziff funds prior to the end of their respective commitment periods, and therefore we may recognize earnings that are subject to clawback to the extent a consolidated fund generates subsequent losses. For Economic Income purposes, we defer recognition of these earnings until they are no longer subject to clawback.

For funds that we do not consolidate, incentive income is recognized at the end of the applicable commitment period when the amounts are contractually payable, or “crystallized,” and when no longer subject to clawback. Additionally, all of our multi-strategy funds and open-end opportunistic credit funds are subject to a perpetual loss carry forward, or a perpetual “high-water mark,” meaning we would not be able to earn incentive income with respect to positive investment performance we

generate 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. We earn incentive income on any net profits in excess of the high-water mark.

The commitment period for most of our multi-strategy assets under management is for a period of one year on a calendar-year basis, and therefore we generally crystallize incentive income annually on December 31. We 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. We may also recognize incentive income for tax distributions related to these assets. Tax distributions are amounts distributed to us to cover tax liabilities related to incentive income that has been accrued at the fund level but will not be recognized by us until the end of the relevant commitment period (if at all). These tax distributions are not subject to clawback once distributed to us.

Approximately \$17.0 billion, or 45%, of our assets under management as of December 31, 2016 were subject to initial commitment periods of three years or longer. These assets under management include assets subject to three-year commitment periods in the OZ Master Fund and certain other multi-strategy funds, as well as assets in our opportunistic credit funds, CLOs, real estate funds and certain other funds. Incentive income related to these assets is based on the cumulative investment performance over a specified commitment period (in the case of CLOs, based on the excess cash flows available to the holders of the subordinated notes), and, to the extent a fund is not consolidated, is not earned until it is no longer subject to repayment to the respective fund. Our ability to earn incentive income on these longer-term assets is also subject to hurdle rates whereby we do not earn any incentive income until the investment returns exceed an agreed upon benchmark. However, for a portion of these assets subject to hurdle rates, once the investment performance has exceeded the hurdle rate, we may receive a preferential "catch-up" allocation, resulting in a potential recognition by us of a full 20% of the net profits attributable to investors in these assets.

Income of Consolidated Och-Ziff Funds. Revenues recorded as income of consolidated Och-Ziff 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. 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. These cash bonuses are based on total annual revenues, which are significantly influenced by the amount of incentive income we earn in the year. Through 2016, annual discretionary cash bonuses were generally determined and expensed in the fourth quarter of each year. Beginning in the first quarter of 2017, we expect 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.

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 Och-Ziff Operating Group A Units granted to executive managing directors subsequent to our IPO. Beginning in 2017, equity-based compensation expense will also include amounts related to the Och-Ziff Operating Group P Units. See Note 19 to our consolidated financial statements included in this annual report for a description of these units.

We also issue Och-Ziff Operating Group D Units to executive managing directors. The Och-Ziff Operating 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 Och-Ziff Operating 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 Och-Ziff Operating Group A Units and dividends on the Company's Class A Shares are paid.

An Och-Ziff Operating Group D Unit converts into an Och-Ziff Operating Group A Unit to the extent the Company determines that it has become economically equivalent to an Och-Ziff Operating Group A Unit, at which point it is considered a grant of equity-based compensation for GAAP purposes. Upon the conversion of Och-Ziff Operating Group D Units into Och-

Ziff Operating 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 Och-Ziff Operating Group D Units are converted into Och-Ziff Operating Group A Units in the future, we may see increasing non-cash equity-based compensation expense related to these units.

Effective March 1, 2017, the Board of Directors approved amendments to the Limited Partnership Agreements of the Och-Ziff Operating Group entities that in addition to the subsequent events discussed in Note 19 of our consolidated financial statements included in this report, were also amended to adjust the measurement thresholds used in calculating the appreciation necessary to permit a determination that Och-Ziff Operating Group D Units issued prior to March 1, 2017, have become economically equivalent to Och-Ziff Operating Group A Units, making it more likely that outstanding Och-Ziff Operating Group D Units (and, due to the fact that economic equivalence is determined chronologically based on order of issuance, subsequently issued Och-Ziff Operating Group D Units) will convert to Och-Ziff Operating Group A Units. This adjustment has no impact on the total number of Och-Ziff Operating Group A and D Units (“Partner Units”) outstanding. The total number of Partner Units outstanding was 322,767,350 as of December 31, 2016.

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. We defer the recognition of any portion of this incentive income to the extent it is subject to clawback and relates to a fund that is not consolidated. See “—Incentive Income” above. 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.

In August 2012, we adopted the Och-Ziff Capital Management Group LLC 2012 Partner Incentive Plan (the “PIP”), under which certain of our executive managing directors at the time of the IPO may be eligible to receive discretionary cash awards and discretionary grants of Och-Ziff Operating Group D Units over a five-year period that commenced in 2013. Each year, an aggregate of up to 2,770,749 Och-Ziff Operating Group D Units may be granted under the PIP to the participating executive managing directors. Aggregate discretionary cash awards for each year under the PIP will be capped at 10% of our incentive income earned during such year, up to a maximum of \$39.6 million per year. In addition to awards under the PIP, we may also issue additional performance-related Och-Ziff Operating Group D Units or make discretionary performance cash payments to our executive managing directors.

Reorganization Expenses. As part of the Reorganization, interests in the Och-Ziff Operating Group held by our executive managing directors and the Ziffs were reclassified as Och-Ziff Operating Group A Units, resulting in significant non-cash Reorganization expenses. Substantially all of those Och-Ziff Operating Group A Units were expensed on a straight-line basis over a five-year vesting period following the IPO, which concluded in November 2012. However, certain of these units had vesting periods through 2015.

Interest Expense. Amounts included within interest expense relate primarily to indebtedness outstanding under our Senior Notes, Aircraft Loan, Revolving Credit Facility and CLO Investment Loan (as defined below). See “—Liquidity and Capital Resources—Debt Obligations” for a summary of the terms related to these borrowings.

General, Administrative and Other. General, administrative and other expenses are comprised of recurring placement and related service fees, occupancy and equipment, professional services, information processing and communications, insurance, business development, changes in our tax receivable agreement liability and other miscellaneous expenses. In addition, the \$412.1 million FCPA settlements expense is also included in this line item.

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

Other Income (Loss)

Net Gains on Investments in Och-Ziff Funds and Joint Ventures. Net gains on investments in Och-Ziff 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 (Losses) of Consolidated Och-Ziff Funds. Net gains (losses) of consolidated Och-Ziff funds consist of net realized and unrealized gains and losses on investments held by the consolidated Och-Ziff 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 basis 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 Och-Ziff Operating Group entities 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 (Loss) Attributable to Noncontrolling Interests

Noncontrolling interests represent ownership interests in our subsidiaries held by parties other than us and are primarily made up of Och-Ziff Operating Group A Units and fund investors' interests in the consolidated Och-Ziff funds. Increases or decreases in net income (loss) attributable to the Och-Ziff Operating Group A Units are driven by the earnings of the Och-Ziff Operating Group. Increases or decreases in the net income attributable to fund investors' interests in consolidated Och-Ziff funds are driven by the earnings of those funds as allocated under the contractual terms of the relevant fund agreements.

Our interest in the Och-Ziff Operating Group is expected to continue to increase over time as additional Class A Shares are issued upon the exchange of Och-Ziff Operating Group A Units or Och-Ziff Operating Group P Units and settlement of RSUs. These increases will be offset upon the conversion of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units.

Additionally, we 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).

Results of Operations

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Management fees	\$ 533,156	\$ 643,991	\$ (110,835)	-17%
Incentive income	233,440	187,563	45,877	24%
Other revenues	2,006	2,077	(71)	-3%
Income of consolidated Och-Ziff funds	1,762	489,350	(487,588)	-100%
Total Revenues	\$ 770,364	\$ 1,322,981	\$ (552,617)	-42%

Total revenues decreased by \$552.6 million, primarily due to the following:

- A \$110.8 million decrease in management fees, primarily due to the following:
 - *Multi-strategy funds.* A \$154.0 million decrease in management fees due to increased redemptions, as well as due to a fee rate cut that went into effect on October 1, 2016, for existing fund investors in virtually all of our multi-strategy assets under management.
 - *Opportunistic credit funds.* An \$8.0 million increase in management fees, primarily due to the effects of deconsolidation of Och-Ziff funds, as fees in the prior year would have been eliminated in consolidation. See “—Economic Income Analysis” where we discuss management fees excluding the effects of consolidation for the comparative periods.
 - *Institutional Credit Strategies.* A \$35.6 million increase in management fees, primarily due to the effects of deconsolidation of Och-Ziff funds, as fees in the prior year would have been eliminated in consolidation. See “—Economic Income Analysis” where we discuss management fees excluding the effects of consolidation for the comparative periods.
 - *Real estate funds.* Management fees in our real estate funds remained relatively flat year over year.

For information regarding our average assets under management and management fee rates, see “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rates.”

- A \$487.6 million decrease in income of consolidated Och-Ziff funds driven primarily by the deconsolidation of the majority of our funds during the first quarter of 2016.
- This decrease in revenues was partially offset by a \$45.9 million increase in incentive income, primarily due to the following:
 - *Multi-strategy funds.* A \$5.5 million decrease in incentive income from our multi-strategy funds, which was driven by a decrease of \$32.5 million related to longer-term assets under management, a decrease of \$27.8 million related to fund investor redemptions, and a decrease of \$4.4 million related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period. These decreases were partially offset by an increase of \$59.2 million related to assets subject to annual crystallization which was driven by improved performance of the funds.
 - *Opportunistic credit funds.* A \$44.5 million increase in incentive income from our opportunistic credit funds, which was driven primarily by an increase of \$29.1 million earned from our open-end funds due to higher fund performance and an increase of \$15.4 million earned from our closed-end funds due to higher realizations from funds out of their investment period, as well as due to the deconsolidation of Och-Ziff

funds, as incentive income from these funds would have been eliminated in consolidation. See “—Economic Income Analysis” where we discuss incentive income excluding the effects of consolidation for the comparative periods.

- *Real estate funds.* A \$14.6 million increase in incentive income from our real estate funds, primarily due to the effects of deconsolidation of Och-Ziff funds, as incentive income in the prior year would have been eliminated in consolidation. See “—Economic Income Analysis” where we discuss incentive income excluding the effects of consolidation for the comparative periods.
- *Other funds.* An \$8.6 million decrease due to lower incentive income from our equity funds.

Expenses

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Compensation and benefits	\$ 409,883	\$ 430,526	\$ (20,643)	-5%
Reorganization expenses	—	14,064	(14,064)	-100%
Interest expense	23,776	21,441	2,335	11%
General, administrative and other	648,131	184,139	463,992	252%
Expenses of consolidated Och-Ziff funds	350	303,770	(303,420)	-100%
Total Expenses	\$ 1,082,140	\$ 953,940	\$ 128,200	13%

Total expenses increased by \$128.2 million, primarily due to the following:

- A \$464.0 million increase in general, administrative and other expenses, driven by the \$412.1 million FCPA settlements expense in 2016. Also contributing to the increase was a \$57.5 million increase due to a change in tax receivable agreement liability, which resulted from updated estimated future income tax savings due to changes in state and local income apportionment factors that resulted in lower expenses in 2015 as compared to 2016. These increases were partially offset by a decrease of \$10.3 million in recurring placement and related service fees due to lower assets under management subject to these arrangements.
- A \$2.3 million increase in interest expense primarily due to the draw down on our Revolving Credit Facility in April 2016.

This increase was partially offset by certain decreases in expenses, primarily the following:

- A \$20.6 million decrease in compensation and benefits expenses, primarily due to the following: (i) a \$37.4 million decrease in equity based compensation driven by lower average grant date fair values due to our lower stock price; (ii) a \$12.7 million decrease in the allocation to Och-Ziff Operating Group D Units due to no Och-Ziff Operating Group distributions being declared in 2016; and (iii) a \$2.8 million decrease in salary and benefits, as our worldwide headcount decreased to 524 as of December 31, 2016, compared to 659 as of December 31, 2015. These decreases were partially offset by a \$32.2 million increase in bonus expense, which was due to improved fund performance that drove higher incentive income and a corresponding increase in bonus compensation.
- A \$14.1 million decrease in Reorganization expenses, as the amortization period for these IPO-related grants ended in 2015.
- A \$303.4 million decrease in expenses of consolidated Och-Ziff funds driven primarily by the deconsolidation of the majority of our funds during the first quarter of 2016.

Other Income (Loss)

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Net gains on investments in Och-Ziff funds and joint ventures	\$ 3,760	\$ 68	\$ 3,692	NM
Net gains (losses) of consolidated Och-Ziff funds	2,915	(69,572)	72,487	NM
Total Other Income (Loss)	\$ 6,675	\$ (69,504)	\$ 76,179	NM

Total other income (loss) increased by \$76.2 million, primarily due to net gains (losses) of consolidated Och-Ziff funds, which was driven primarily by the deconsolidation of the majority of our funds during the first quarter of 2016.

Income Taxes

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Income taxes	\$ 10,886	\$ 132,224	\$ (121,338)	-92%

Income tax expense decreased by \$121.3 million, primarily driven by a \$69.3 million decrease in deferred income tax expenses due to prior year changes in state and local income apportionment factors and a \$38.8 million decrease due to lower profitability. The remaining variance was due to various miscellaneous items.

Net (Loss) Income Attributable to Noncontrolling Interests

The following table presents the components of the net (loss) income attributable to noncontrolling interests and to redeemable noncontrolling interests:

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Och-Ziff Operating Group A Units	\$ (195,087)	\$ 136,449	\$ (331,536)	NM
Consolidated Och-Ziff funds	262	54,357	(54,095)	-100%
Other	1,068	371	697	188%
Total	\$ (193,757)	\$ 191,177	\$ (384,934)	NM
Redeemable noncontrolling interests	\$ 2,450	\$ (49,604)	\$ 52,054	NM

Net (loss) income attributable to noncontrolling interests decreased \$384.9 million primarily due to the following:

- A \$331.5 million decrease in the amounts attributable to the Och-Ziff Operating Group A Units due lower profitability of the Och-Ziff Operating Group, which was driven by the FCPA settlements expense, as well as lower management fees, partially offset by higher incentive income and lower compensation and benefits expenses.
- A \$54.1 million decrease in the amounts attributable to the consolidated Och-Ziff funds was driven primarily by deconsolidation of the majority of our funds during the first quarter of 2016.

The \$52.1 million increase in amounts attributable to redeemable noncontrolling interests was driven primarily by the deconsolidation of the majority of our funds during the first quarter of 2016.

Net (Loss) Income Attributable to Class A Shareholders

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
Net (loss) income attributable to Class A Shareholders	\$ (130,762)	\$ 25,740	\$ (156,502)	NM

Net (loss) income attributable to Class A Shareholders decreased by \$156.5 million, primarily driven by the FCPA settlements expense, as well as lower management fees, partially offset by higher incentive income, lower income tax expense and lower compensation and benefits expenses.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenues

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Management fees	\$ 643,991	\$ 664,221	\$ (20,230)	-3%
Incentive income	187,563	507,261	(319,698)	-63%
Other revenues	2,077	1,303	774	59%
Income of consolidated Och-Ziff funds	489,350	369,499	119,851	32%
Total Revenues	\$ 1,322,981	\$ 1,542,284	\$ (219,303)	-14%

Total revenues decreased by \$219.3 million, primarily due to the following:

- A \$319.7 million decrease in incentive income, primarily due to the following:
 - *Multi-strategy funds.* A \$276.7 million decrease in incentive income from our multi-strategy funds, which was driven by a decrease of \$295.3 million related to assets subject to one-year measurement periods and a decrease of \$13.5 million related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period. These decreases were partially offset by an increase of \$20.2 million related to fund investor redemptions and an increase of \$12.0 million related to longer-term assets under management.
 - *Opportunistic credit funds.* A \$40.1 million decrease in incentive income from our opportunistic credit funds, which was driven primarily by a decrease of \$31.6 million earned from our open-end funds and a decrease of \$8.5 million earned from our closed-end funds.
 - *Real estate funds.* A \$3.3 million offsetting increase in incentive income from our real estate funds, primarily due to higher amounts recognized during the second quarter of 2015 related to certain real estate funds.
- A \$20.2 million decrease in management fees, primarily due to lower assets under management in our multi-strategy funds, as discussed in “Assets Under Management and Fund Performance.” See “Assets Under Management—Weighted-Average Assets Under Management and Average Management Fee Rates” for information regarding our average management fee rates.
- A \$119.9 million offsetting increase in income of consolidated Och-Ziff funds. Substantially all of this income is allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. We may, however, be allocated a portion of these earnings through our incentive income allocation as general partner of these funds.

Expenses

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Compensation and benefits	\$ 430,526	\$ 492,712	\$ (62,186)	-13%
Reorganization expenses	14,064	16,083	(2,019)	-13%
Interest expense	21,441	8,166	13,275	163%
General, administrative and other	184,139	132,800	51,339	39%
Expenses of consolidated Och-Ziff funds	303,770	185,888	117,882	63%
Total Expenses	\$ 953,940	\$ 835,649	\$ 118,291	14%

Total expenses increased by \$118.3 million, primarily due to the following:

- A \$117.9 million increase in expenses of consolidated Och-Ziff funds. Substantially all of these expenses are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. These expenses, however, may reduce the amount of earnings from the consolidated funds allocated to us through our incentive income allocation as general partner of these funds.
- A \$51.3 million increase in general, administrative and other expenses, driven by the following: (i) a \$42.2 million increase in professional fees, primarily driven by increased legal expenses relating to certain regulatory and legal matters; (ii) a \$7.9 million increase in information processing and communication fees; (iii) a \$4.5 million increase related to the settlement of a certain regulatory matter; (iv) a \$4.1 million increase in occupancy and equipment; and (v) a \$3.7 million increase in business development expenses. Offsetting these increases was a decrease of \$15.5 million due to a change in tax receivable agreement liability as a result of updated estimated future income tax savings at the state and local level due to changes in state and local income apportionment factors as discussed in the income tax discussion below.
- A \$13.3 million increase in interest expense primarily due to the issuance of our Senior Notes in the fourth quarter of 2014.
- A \$62.2 million offsetting decrease in compensation and benefits expenses, primarily due to a \$55.8 million decrease in bonus expense and a \$14.3 million decrease in the allocation to Och-Ziff Operating Group D Units due to lower year over year earnings of the Och-Ziff Operating Group. Offsetting these decreases was a \$10.0 million increase in salaries and benefits due in part to our hiring activities globally. Our worldwide headcount increased to 659 as of December 31, 2015 compared to 595 as of December 31, 2014.

Other Income (Loss)

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Net gains on investments in Och-Ziff funds and joint ventures	\$ 68	\$ 5,999	\$ (5,931)	-99%
Net gains (losses) of consolidated Och-Ziff funds	(69,572)	137,726	(207,298)	NM
Total Other Income (Loss)	\$ (69,504)	\$ 143,725	\$ (213,229)	NM

Total other income (loss) decreased by \$213.2 million, primarily due to a decrease in net gains (losses) of consolidated Och-Ziff funds. Substantially all of these net gains (losses) are attributable to noncontrolling interests, as we generally only have a minimal ownership interest, if any, in each of these funds. We may, however, be allocated a portion of these earnings through our incentive income allocation as general partner of these funds. Also contributing to the decrease was a \$5.9 million decrease in net

gains on investments in Och-Ziff funds and joint ventures driven by the sale of an investment held by a joint venture during the first quarter of 2014 that did not reoccur in 2015.

Income Taxes

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Income taxes	\$ 132,224	\$ 139,048	\$ (6,824)	-5%

Income tax expense decreased by \$6.8 million, primarily due to the following: (i) \$25.5 million decrease due to lower profitability; (ii) \$7.0 million decrease due to the establishment of a liability for unrecognized tax benefits in the prior-year period; (iii) a \$4.6 million decrease related to the finalization of our 2014 income tax returns; (iv) a \$25.5 million offsetting increase in deferred income tax expense due to changes in state and local income apportionment factors; and (v) a \$6.4 million offsetting increase due to the establishment of a valuation allowance for foreign income tax credits in 2015.

Net Income Attributable to Noncontrolling Interests

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

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Och-Ziff Operating Group A Units	\$ 136,449	\$ 365,793	\$ (229,344)	-63%
Consolidated Och-Ziff funds	54,357	169,142	(114,785)	-68%
Other	371	353	18	5%
Total	\$ 191,177	\$ 535,288	\$ (344,111)	-64%
Redeemable noncontrolling interests	\$ (49,604)	\$ 33,579	\$ (83,183)	-248%

Net income attributable to noncontrolling interests decreased \$344.1 million primarily due to the following:

- A \$229.3 million decrease in the net income attributable to the Och-Ziff Operating Group A Units, driven primarily by lower incentive income and higher non-compensation expenses, partially offset by lower bonus expense.
- A \$114.8 million decrease in the net income attributable to the consolidated Och-Ziff funds, driven primarily by the decrease in net gains of consolidated Och-Ziff funds and an increase in expenses of consolidated Och-Ziff funds, partially offset by higher income of consolidated Och-Ziff funds.

The \$83.2 million decrease in net income attributable to redeemable noncontrolling interests was driven primarily by net losses on investments in the credit funds that are currently classified as redeemable noncontrolling interests.

Net Income Attributable to Class A Shareholders

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
Net income attributable to Class A Shareholders	\$ 25,740	\$ 142,445	\$ (116,705)	-82%

Net income attributable to Class A Shareholders decreased by \$116.7 million, primarily driven by lower incentive income, higher non-compensation expenses, partially offset by lower bonus expense.

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 and the Ziffs (until they exchanged their remaining interests during the 2014 second quarter) on their direct interests in the Och-Ziff Operating Group. Management reviews operating performance at the Och-Ziff Operating Group level, where our operations are performed, prior to making any income allocations.
- Reorganization expenses related to the IPO, equity-based compensation expenses, depreciation and amortization expenses, and gains and losses on assets held for sale, as management does not consider these non-cash expenses 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 Och-Ziff funds, as management does not consider these items to be reflective of operating performance.
- Amounts related to the consolidated Och-Ziff 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. We also defer the recognition of incentive income allocations from the consolidated Och-Ziff funds until all clawback contingencies are resolved, consistent with the revenue recognition policy for the funds we do not consolidate.

In addition, expenses related to compensation and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant commitment period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund.

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, 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. No adjustments to the GAAP basis have been made for other revenues and net gains (losses) on joint ventures. 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 Och-Ziff Funds segment and our real estate business. The Och-Ziff 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.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Economic Income Revenues (Non-GAAP)

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Management fees	\$ 473,982	\$ 20,750	\$ 494,732	\$ 622,065	\$ 20,122	\$ 642,187
Incentive income	224,990	8,450	233,440	197,795	7,217	205,012
Other revenues	1,978	28	2,006	2,045	32	2,077
Total Economic Income Revenues	\$ 700,950	\$ 29,228	\$ 730,178	\$ 821,905	\$ 27,371	\$ 849,276

Economic Income revenues decreased by \$119.1 million, primarily due to the following:

- A \$147.5 million decrease in management fees, primarily due to the following:
 - *Multi-strategy funds.* A \$143.8 million decrease in management fees due to increased redemptions, as well as due to a rate cut that went into effect during on October 1, 2016, for existing fund investors in virtually all of our multi-strategy assets under management.
 - *Opportunistic credit funds.* A \$5.7 million decrease in management fees, primarily due to distributions from closed-end opportunistic funds that are out of their investment periods.
 - *Institutional Credit Strategies.* A \$4.6 million increase in management fees due to increased assets under management.
 - *Real estate funds.* Management fees in our real estate funds remained relatively flat year over year.

For information regarding our average assets under management and management fee rates, see “Assets Under Management and Fund Performance—Weighted-Average Assets Under Management and Average Management Fee Rates.”

- This decrease was partially offset by a \$28.4 million increase in incentive income, primarily due to the following:
 - *Multi-strategy funds.* A \$5.5 million decrease in incentive income from our multi-strategy funds, which was driven by a decrease of \$32.5 million related to longer-term assets under management, a decrease of \$27.8 million related to fund investor redemptions, and a decrease of \$4.4 million related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period. These decreases were partially offset by a \$59.2 million increase in assets subject to annual crystallization, which was driven by improved performance of the funds.
 - *Opportunistic credit funds.* A \$35.6 million increase in incentive income from our opportunistic credit funds, which was driven primarily by an increase of \$28.1 million earned from our open-end funds due to higher fund performance and an increase of \$7.5 million from our closed-end funds due to higher realizations from funds out of their investment period.
 - *Real estate funds.* A \$7.4 million increase in incentive income from our real estate funds, primarily due to higher amounts realized on certain long term assets.
 - *Other funds.* An \$8.6 million decrease due to lower incentive income from our equity funds.

We earned approximately 59%, 33%, 8% and 0% of our incentive income in 2016 from our multi-strategy, opportunistic credit, real estate and other funds, respectively, compared to 70%, 21%, 5% and 4%, respectively, in 2015.

Economic Income Expenses (Non-GAAP)

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Compensation and benefits	\$ 309,170	\$ 20,596	\$ 329,766	\$ 282,398	\$ 20,276	\$ 302,674
Non-compensation expenses	608,737	3,201	611,938	199,362	2,036	201,398
Total Economic Income Expenses	\$ 917,907	\$ 23,797	\$ 941,704	\$ 481,760	\$ 22,312	\$ 504,072

Economic Income expenses increased by \$437.6 million, primarily due to the following:

- A \$27.1 million increase in compensation and benefit expenses driven by a \$29.8 million increase in bonus expense due to improved fund performance that drove higher incentive income and a corresponding increase in bonus compensation. Partially offsetting these increases was a \$2.8 million decrease in salaries and benefits, as our worldwide headcount decreased to 524 as of December 31, 2016 as compared to 659 as of December 31, 2015.
- A \$410.5 million increase in non-compensation expenses, primarily driven by the \$412.1 million FCPA settlements expense.

Other Economic Income Items (Non-GAAP)

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Net losses on joint ventures	\$ (63)	\$ —	\$ (63)	\$ —	\$ —	\$ —
Net loss attributable to noncontrolling interests	\$ (14)	\$ —	\$ (14)	\$ (12)	\$ —	\$ (12)

Net losses on joint ventures represent the net losses on joint ventures established to expand certain of our private investments platforms. Net loss attributable to noncontrolling interests represents the amount of loss that was reduced from Economic Income and attributed to residual interests in certain businesses not owned by us.

Economic Income (Non-GAAP)

	Year Ended December 31,		Change	
	2016	2015	\$	%
(dollars in thousands)				
<i>Economic Income:</i>				
Och-Ziff Funds segment	\$ (217,006)	\$ 340,157	\$ (557,163)	NM
Other Operations	5,431	5,059	372	7%
Total Company	\$ (211,575)	\$ 345,216	\$ (556,791)	NM

Economic Income decreased by \$556.8 million, primarily due to the FCPA settlements expense, as well as lower management fees and higher compensation and benefits expenses, partially offset by higher incentive income.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Economic Income Revenues (Non-GAAP)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Management fees	\$ 622,065	\$ 20,122	\$ 642,187	\$ 634,007	\$ 15,276	\$ 649,283
Incentive income	197,795	7,217	205,012	527,898	31,272	559,170
Other revenues	2,045	32	2,077	1,275	28	1,303
Total Economic Income Revenues	\$ 821,905	\$ 27,371	\$ 849,276	\$ 1,163,180	\$ 46,576	\$ 1,209,756

Economic Income revenues decreased by \$360.5 million, primarily due to the following:

- A \$354.2 million decrease in incentive income, primarily due to the following:
 - *Multi-strategy funds.* A \$276.7 million decrease in incentive income from our multi-strategy funds, which was driven by a decrease of \$295.3 million related to assets subject to one-year measurement periods and a decrease of \$13.5 million related to lower tax distributions taken to cover tax liabilities on incentive income that has been accrued on certain longer-term assets under management, but that will not be realized until the end of the relevant commitment period. These decreases were partially offset by an increase of \$20.2 million related to fund investor redemptions and an increase of \$12.0 million related to longer-term assets under management.
 - *Opportunistic credit funds.* A \$51.8 million decrease in incentive income from our opportunistic credit funds, which was driven primarily by a decrease of \$32.5 million earned from our open-end funds and a decrease of \$19.3 million earned from our closed-end funds.
 - *Real estate funds.* A \$20.8 million decrease in incentive income from our real estate funds, primarily due to higher incentive income realizations from Och-Ziff Real Estate Fund I in 2014 than in 2015.
- A \$7.1 million decrease in management fees, primarily due to lower assets under management in our multi-strategy funds, partially offset by higher assets under management in our Institutional Credit Strategies products. See “Assets Under Management—Weighted-Average Assets Under Management and Average Management Fee Rates” for information regarding our average management fee rate.

We earned approximately 70%, 21%, 5% and 4% of our incentive income in 2015 from our multi-strategy, opportunistic credit, real estate and other funds, respectively, compared to 74%, 17%, 6% and 3%, respectively, in 2014.

Economic Income Expenses (Non-GAAP)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Compensation and benefits	\$ 282,398	\$ 20,276	\$ 302,674	\$ 336,097	\$ 22,455	\$ 358,552
Non-compensation expenses	199,362	2,036	201,398	123,965	2,178	126,143
Total Economic Income Expenses	\$ 481,760	\$ 22,312	\$ 504,072	\$ 460,062	\$ 24,633	\$ 484,695

Economic Income expenses increased by \$19.4 million, primarily due to the following:

- A \$75.3 million increase in non-compensation expenses primarily driven by the following: (i) a \$42.2 million increase in professional fees primarily due to increased legal expenses relating to certain regulatory and legal matters; (ii) a \$13.3 million increase in interest expense related to the issuance of our Senior Notes in the fourth quarter of 2014; (iii) a \$6.6 million increase in information processing and communications expense; (iv) a \$4.5 increase related to the settlement of a certain regulatory matters; and (v) a \$3.7 million increase in business development expenses.
- A \$55.9 million offsetting decrease in compensation and benefit expenses driven by a \$65.9 decrease in bonus expense, which was driven by a decrease in incentive income earned in 2015. Partially offsetting this decrease was a \$10.0 million increase in salaries and benefits due to our hiring activities globally as discussed above in “—Results of Operations.”

Other Economic Income Items (Non-GAAP)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Net gains on joint ventures	\$ —	\$ —	\$ —	\$ 4,874	\$ —	\$ 4,874
Net loss attributed to noncontrolling interests	\$ (12)	\$ —	\$ (12)	\$ (8)	\$ —	\$ (8)

Net gains on joint ventures represent the net gains on joint ventures established to expand certain of our private investments platforms. Net loss attributed to noncontrolling interests represents the amount of loss that was reduced from Economic Income and allocated to residual interests in certain businesses not owned by us. The year-over-year decrease in net gains on joint ventures was due to the sale of an investment held by a joint venture in the first quarter of 2014.

Economic Income (Non-GAAP)

	Year Ended December 31,		Change	
	2015	2014	\$	%
(dollars in thousands)				
<i>Economic Income:</i>				
Och-Ziff Funds segment	\$ 340,157	\$ 708,000	\$ (367,843)	-52%
Other Operations	5,059	21,943	(16,884)	77%
Total Company	\$ 345,216	\$ 729,943	\$ (384,727)	-53%

Economic Income decreased by \$384.7 million, primarily due to lower incentive income and higher non-compensation expenses, partially offset by lower bonus expense.

Liquidity and Capital Resources

In September 2016, we entered into the Purchase Agreement with the EMD Purchasers, including Daniel S. Och, to issue up to \$400.0 million of Preferred Units. Pursuant to the agreement, in October 2016, we completed a \$250.0 million issuance and sale of Preferred Units to the EMD Purchasers and completed an additional \$150.0 million issuance and sale of Preferred Units to EMD Purchasers in January 2017. We used the proceeds from the Preferred Units issued in October 2016, as well as cash on hand, to pay the \$412.1 million of penalties and disgorgement related to the FCPA settlements discussed in Note 17 to our consolidated financial statements included in this report. We expect to use the proceeds from the second sale of the Preferred Units in January 2017 for working capital and general corporate purposes. See Note 11 to our consolidated financial statements included in this report for details regarding the terms of the Preferred Units.

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 Och-Ziff 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, as well as any related tax withholding obligations, and non-compensation expenses.
- Pay interest on our debt obligations.
- Provide capital to facilitate the growth of our business.
- Pay income taxes.
- Make cash distributions in accordance with our distribution policy as discussed below under “—Dividends and Distributions.”

In September 2016, we amended our tax receivable agreement to provide that no amounts will be due or payable under the agreement with respect to the 2015 and 2016 taxable years. See Note 17 to our consolidated financial statements included in this report for additional information.

Historically, management fees have been sufficient to cover all of our “fixed” operating expenses, which we define as salaries and benefits and our non-compensation costs incurred in the ordinary course of business. We recently reduced our management fee rates for existing investors in virtually all of our multi-strategy assets under management. While we continue to believe that over time we should be able to scale our operations so that management fees are sufficient to cover our fixed operating expenses, no assurances can be given that our management fees ultimately will be sufficient for these purposes.

We cannot predict the amount of incentive income, if any, which we may earn in any given year. Accordingly, we historically have not relied on incentive income to meet our fixed operating expenses. Total annual revenues, which are heavily influenced by the amount of annual incentive income we earn, historically have been sufficient to fund 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.

Executive managing directors participating in the PIP may be eligible to receive discretionary annual cash awards each year for a five-year period that commenced in 2013, if we earn incentive income in the relevant year. The maximum aggregate amount of cash that may be awarded for each year under the PIP to the participating executive managing directors, collectively, will be capped at 10% of our incentive income earned during that year, up to a maximum aggregate amount of \$39.6 million per year. Whether any cash is awarded under the PIP in a particular year, and the amount of such awards, will be determined by the Compensation Committee of the Board in its sole discretion, based on recommendations from Mr. Och for that 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 described above, 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 expect 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 prior to their respective maturity dates, which would reduce amounts available to distribute to our Class A Shareholders. For any amounts unpaid as of a maturity 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.

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

Senior Notes

On November 20, 2014, we issued \$400.0 million of 4.50% Senior Notes due November 20, 2019, unless earlier redeemed or repurchased. The Senior Notes were issued at a price equal to 99.417% of the aggregate principal amount and bear interest at a rate per annum of 4.50% payable semiannually in arrears. The Senior Notes are unsecured and unsubordinated obligations of the issuer, Och-Ziff Finance, and are fully and unconditionally guaranteed, jointly and severally, on an unsecured and unsubordinated basis by the Och-Ziff Operating Group entities.

Please see Note 10 to our consolidated financial statements included in this report for a description of the redemption provisions and restrictions under the Senior Notes.

Revolving Credit Facility

On November 20, 2014, we entered into the \$150.0 million, five-year unsecured Revolving Credit Facility, which was subsequently amended on December 29, 2015, the proceeds of which may be used for working capital, general corporate purposes or other liquidity needs. The facility matures on November 20, 2019. The borrower under the Revolving Credit Facility is OZ Management and the facility is guaranteed by OZ Advisors I, OZ Advisors II and Och-Ziff Finance. We are able to increase the maximum amount of credit available under the facility to \$225.0 million if certain conditions are satisfied. As of December 31, 2016, we had \$120.0 million of outstanding borrowings under the facility.

We are subject to a fee of 0.10% to 0.25% per annum on undrawn commitments during the term of the Revolving Credit Facility. Outstanding borrowings will bear interest at a rate per annum of LIBOR plus 1.00% to 2.00%, or a base rate plus zero to 1.00%. The commitment fees and the spreads over LIBOR or the base rate are based on OZ Management's credit rating throughout the term of the facility. The interest rate on the drawn portion of the commitment as of December 31, 2016 was LIBOR plus 1.75%, and the undrawn commitment fee was 0.20%.

Please see Note 10 to our consolidated financial statements included in this report for a description of the financial covenants and restrictions under the Revolving Credit Facility.

Aircraft Loan

On February 14, 2014, we entered into the Aircraft Loan to finance installment payments towards the purchase of a new corporate aircraft that was delivered to us in February 2015. The Aircraft Loan is guaranteed by OZ Management, OZ Advisors I and OZ Advisors II. As of December 31, 2016, \$47.1 million was outstanding under the Aircraft Loan.

Outstanding borrowings bear interest at a rate of 3.22% per annum, and the balance is payable in equal monthly installments of principal and interest over the term of the facility beginning on the aircraft delivery date, with a balloon payment of \$30.8 million due upon maturity on February 4, 2022. There are no financial covenants associated with the Aircraft Loan. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.

CLO Investment Loan

In November 2016, we entered into a \$16.0 million loan to finance 75% of our investment into a CLO we manage (the "CLO Investment Loan"). The CLO Investment Loan is collateralized by the notes of the CLO held by us and is subject to an interest rate of EURIBOR plus 2.23% and is non-recourse to our general credit. We will make interest and principal payments on the CLO Investment Loan at such time interest and principal payments are received on our investment in the CLO. Any remaining unpaid principal is due on December 15, 2023. The CLO Investment Loan is subject to customary events of default and covenants and includes terms that require our continued involvement with the CLO. As of December 31, 2016, \$16.0 million was outstanding under the CLO Investment Loan.

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 Och-Ziff Operating Group of Och-Ziff Operating 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 Och-Ziff Operating 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 Och-Ziff Operating Group 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 Och-Ziff Operating Group, 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 amortization 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 Och-Ziff Corp and any other corporate taxpaying entities that hold Och-Ziff Operating 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 Och-Ziff Operating Group. 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 December 31, 2016, 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 \$520.8 million as a result of the cash savings to our intermediate holding companies from the purchase of Och-Ziff Operating Group A Units from our executive managing directors and the Ziffs with proceeds from the 2007 Offerings and the exchange of Och-Ziff Operating 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 Och-Ziff Corp, and any other corporate taxpaying entities that hold Och-Ziff Operating Group B Units, and not of the Och-Ziff Operating Group entities. We may need to incur debt to finance payments under the tax receivable agreement to the extent the entities within the Och-Ziff Operating Group 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 Och-Ziff Operating Group 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 Och-Ziff Corp will impact the payments to be made under the tax receivable agreement. To the extent that Och-Ziff Corp does not have sufficient taxable income to utilize the amortization deductions available as a result of the increased tax basis in the Och-Ziff Operating Group 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 Och-Ziff Operating Group 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 Och-Ziff Operating Group's assets at the time of any exchange will determine the extent to which Och-Ziff 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 Och-Ziff Corp will receive an increase in tax basis of the Och-Ziff Operating Group assets as a result of such exchanges, and thus will impact the benefit derived by Och-Ziff 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.

In September 2016, we amended the tax receivable agreement to provide that no amounts will be due or payable under the agreement with respect to the 2015 and 2016 taxable years. As a result, we released approximately \$72.6 million of previously accrued tax receivable agreement liability.

Dividends and Distributions

The table below presents the cash dividends declared on our Class A Shares in 2015, and the related cash distributions to our executive managing directors on their Och-Ziff Operating Group A Units and Och-Ziff Operating Group D Units. We did not pay any dividends on our Class A Shares in 2016.

Payment Date	Class A Shares		Related Distributions to Executive Managing Directors (dollars in thousands)
	Record Date	Dividend per Share	
November 20, 2015	November 13, 2015	\$ 0.04	\$ 35,195
August 21, 2015	August 14, 2015	\$ 0.14	\$ 58,412
May 22, 2015	May 15, 2015	\$ 0.22	\$ 87,615
February 24, 2015	February 17, 2015	\$ 0.47	\$ 181,714

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 Och-Ziff 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 Och-Ziff Operating Group entities may not declare or pay distributions on or repurchase any of their equity securities that rank equal with or junior to the Preferred Units. See Note 11 to our consolidated financial statements included in this report 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 Och-Ziff Operating Group, subject to the terms of the limited partnership agreements of the Och-Ziff Operating Group entities.

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 Och-Ziff Operating Group entities' limited partnership agreements, we may cause the applicable Och-Ziff Operating Group entities 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, Och-Ziff Operating Group 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 Och-Ziff Operating Group's cash flows from operations are insufficient to enable it to make required minimum tax distributions discussed above, the Och-Ziff 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.

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 years ended December 31, 2016, 2015 and 2014 was \$(281.5) million, \$442.3 million and \$950.4 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, less cash used for operating expenses. Additionally, net cash from operating activities includes 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 attributable to our Class A Shareholders.

The decrease in net cash from operating activities in 2016 compared to 2015 was primarily due to higher operating expenses, primarily driven by \$412.1 million payment for penalties and disgorgement related to the FCPA settlements with the SEC and the DOJ (see Note 11), and lower management fees in 2016 as compared to 2015, as well as lower incentive income earned in 2015 compared to 2014, partially offset by lower discretionary bonuses in 2015 compared to 2014. 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. Partially offsetting these decreases were lower cash outflows in 2016 related to the investment activities of the consolidated funds, which was the result of the deconsolidation of the majority of our funds upon the adoption of ASU 2015-02 on January 1, 2016.

The decrease in net cash from operating activities in 2015 compared to 2014 was primarily due to lower incentive income earned in 2014 compared to 2013, partially offset by lower discretionary bonuses in 2014 compared to 2013. 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. Also contributing to the decrease were increases in non-compensation operating expenses and expenses of the consolidated funds.

Investing Activities. Net cash used from investing activities for the years ended December 31, 2016, 2015 and 2014 was \$(16.5) million, \$(27.8) million and \$(103.3) million, respectively. Investing cash flows in 2016 primarily related to the purchases and maturities of U.S. government obligations to manage excess liquidity, and investments made in and returns of capital from our investments in Och-Ziff funds.

Investing cash flows in 2015 primarily related to leasehold improvements in our New York headquarters, as well as the final installment payment paid upon delivery of our new corporate aircraft in February, which was financed by borrowings under the Aircraft Loan. The remaining investing-related cash flows in 2015 relate to other fixed asset purchases, as well as proceeds received upon the maturity of United States government obligations.

Investing cash flows in 2014 primarily related to installment payments paid towards our new corporate aircraft, which were also financed by borrowings under the Aircraft Loan. The remaining investing-related cash flows relate to fixed asset purchases, primarily related to leasehold improvements in our New York headquarters, as well as purchases of U.S. government obligations to manage excess liquidity. Investment-related cash flows of the consolidated Och-Ziff funds are classified within operating activities.

Financing Activities. Net cash from financing activities for the years ended December 31, 2016, 2015 and 2014 was \$373.7 million, \$(411.0) million and \$(786.5) 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. 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 Och-Ziff Operating Group A Units, are also included in net cash from financing activities.

In April 2016, we borrowed \$120.0 million pursuant to our Revolving Credit Facility.

In October 2016, we sold \$250.0 million of Preferred Units to the EMD Purchasers. We used the proceeds from the Preferred Units issued in October 2016, as well as cash on hand, to pay the \$412.1 million of penalties and disgorgement related to the FCPA settlements.

In November 2016, we borrowed \$16.0 million under our CLO Investment Loan to fund 75% of our investment in a CLO.

We paid no dividends to our Class A Shareholders and paid no distributions to our executive managing directors on their Och-Ziff Operating Group A Units in 2016. We paid dividends to our Class A Shareholders of \$153.5 million and \$293.1 million and paid distributions to our executive managing directors and the Ziffs on the Och-Ziff Operating Group A Units of \$337.6 million and \$635.9 million in 2015 and 2014, respectively.

As a result of the deconsolidation of most of our funds upon the adoption of ASU 2015-02 on January 1, 2016, contributions from and distributions to noncontrolling interests declined substantially.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2016 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	2017	2018 - 2019	2020 - 2021	2022 - Thereafter	Total
(dollars in thousands)					
Long-term debt ⁽¹⁾	\$ 3,153	\$ 526,181	\$ 6,592	\$ 47,356	\$ 583,282
Estimated interest on long-term debt ⁽²⁾	23,618	46,892	2,246	168	72,924
Operating leases ⁽³⁾	26,056	38,753	41,385	143,999	250,193
Tax receivable agreement ⁽⁴⁾	—	89,019	91,366	340,446	520,831
Unrecognized tax benefits ⁽⁵⁾	—	—	—	—	—
Incentive income subject to clawback ⁽⁶⁾	—	—	—	—	—
Total Contractual Obligations	\$ 52,827	\$ 700,845	\$ 141,589	\$ 531,969	\$ 1,427,230

- (1) Represents indebtedness outstanding under the Senior Notes, the Revolving Credit Facility, the Aircraft Loan, the CLO Investment Loan and certain software financing arrangements. We are not currently able to make a reasonable estimate of the timing of payments in individual years in connection with the CLO Investment Loan, as the timing of those payments are contingent on principal payments made to us on our investment in CLO. We have, therefore, included the total amount outstanding in the year of final maturity as per the terms of the agreement. Amounts presented represent expected cash payments, and have not been reduced for any discounts or deferred debt issuance costs that are netted against these balance for presentation in our consolidated balance sheet.
- (2) Represents expected future interest payments on our Senior Notes and Aircraft Loan, which are fixed-rate borrowings, and on our Revolving Credit Facility, which is variable rate, LIBOR-based borrowing, based on the LIBOR rate that was in effect as of December 31, 2016. Our CLO Investment Loan is a variable rate, EURIBOR-based borrowing; however, no amounts have been included in the table above, as the timing of interest payments is contingent on interest payments made to us on our investment in CLO.
- (3) Represents the minimum rental payments required under our various operating leases for office space.
- (4) Represents the maximum amounts that would be payable to our executive managing directors and the Ziffs under the tax receivable agreement assuming that we will have sufficient taxable income each year to fully realize the expected tax savings resulting from the purchase by the Och-Ziff Operating Group of Och-Ziff Operating Group A Units with proceeds from the 2007 Offerings, as well as subsequent exchanges as discussed above under the heading “— Liquidity and Capital Resources—Tax Receivable Agreement.” In light of the numerous factors affecting our obligation to make such payments, the timing and amounts of any such actual payments may differ materially from those presented in the table above.
- (5) We are not currently able to make a reasonable estimate of the timing of payments in individual years in connection with our unrecognized tax benefits of \$7.0 million, and therefore these amounts are not included in the table above.
- (6) As of December 31, 2016, we had incentive income collected from our real estate funds that is subject to clawback in the event of future losses in the respective fund. We are not currently able to make a reasonable estimate of the timing of payments, if any, as the payments are contingent on future realizations of investments in the respective fund, the timing of which is uncertain.

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 6 and 7 of our consolidated financial statements included in this report for information on our retained and variable interests in our funds and CLO.

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 Och-Ziff 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 5 to our consolidated financial statements included in this report for additional information regarding fair value measurements.

As of December 31, 2016, 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 46% within Level I; approximately 32% within Level II; and approximately 22% within Level III. As of December 31, 2015, 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 48% within Level I; approximately 27% within Level II; and approximately 25% 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. 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. Such values are generally based on the last sales price. We, as the investment manager of the Och-Ziff 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, but are not limited to: (i) performing comparisons with prices of comparable or similar securities; (ii) obtaining valuation-related information from the issuers; (iii) calculating the present value of future cash flows; (iv) assessing other analytical data and information relating to the investment that is an indication of value; (v) obtaining information provided by third parties; and (vi) evaluating financial information provided by the management of these investments. See Note 5 to our consolidated financial statements included in this report for additional information.

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 Financial 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. See Note 5 to our consolidated financial statements included in this report for additional information regarding our valuation procedures and related oversight and controls.

Impact of Fair Value Measurement on Our Results. A 10% change in the estimate of fair value of the investments held by our funds would generally have a 10% change in management fees in the period subsequent to the change in fair value, as management fees are charged based on the assets under management at the beginning of the period. For our real estate funds and certain other funds, there would be no impact as management fees are generally charged based on committed capital during the original investment period and invested capital thereafter. The impact of a 10% change in unrealized gains and losses of the investments held by our funds would generally have an immediate 10% impact on the amount of profit on which we earn our 20% incentive income if the change continues at the end of the commitment period, and assuming no hurdle rates and no high-water marks from any prior-year losses. For certain opportunistic credit, real estate and certain other funds, there would be no impact, as incentive income is recognized based on realized profits and when no longer subject to clawback.

For additional information regarding the impact that the fair value measurement of assets under management has on our results, please see “Part II—Item 7A. Quantitative and Qualitative Disclosures about Market Risk.”

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 Och-Ziff Corp that arose in connection with the purchase of Och-Ziff Operating Group A Units from our executive managing directors and the Ziffs with proceeds from the 2007 Offerings, subsequent exchanges of Och-Ziff Operating 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, as well as an additional 20-year loss carryforward period available to us in any year a net operating loss is generated as a result. Our analysis of whether we expect to have sufficient future taxable income to realize these deductions is based solely on estimates over this period.

Och-Ziff Corp generated taxable income of \$47.1 million for the year ended December 31, 2016, 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 \$1.7 billion over the remaining seven-year weighted-average amortization period, as well as an additional 20-year loss carryforward period available to us if a net operating loss is generated, 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.

To generate \$1.7 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 \$33.5 billion as of January 1, 2017, we would need to generate a minimum compound annual growth rate in assets under management of less than 1% 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 Och-Ziff Operating Group entities, 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 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 December 31, 2016, we had \$206.7 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2030 and 2036, and \$103.7 million of net operating losses available to offset future taxable income for state income tax purposes and \$96.1 million for local income tax purposes that will expire between 2035 and 2036. Based on the analysis set forth above, as of December 31, 2016, 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 certain foreign net operating losses. Accordingly, a valuation allowance of \$8.0 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 (e.g., full retrospective or modified retrospective), see Note 2 to our consolidated financial statements included in this report for additional information.

ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 significantly changed the consolidation analysis required under GAAP, and resulted in the deconsolidation of the majority of the previously consolidated Och-Ziff funds, including all of the CLOs. The deconsolidation of the majority of the previously consolidated funds resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders’ equity attributable to noncontrolling interests in our consolidated balance

sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains (losses) of consolidated Och-Ziff funds in our consolidated statement of comprehensive income (loss). Management fees and incentive income from the previously consolidated funds are also no longer eliminated in consolidation.

The net impact to our results is that incentive income from the previously consolidated funds will now be recognized when such amounts are no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to us rather than to the fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.

The adoption of ASU 2015-02 did not have any effect on Economic Income. See Notes 2 and 3 to our consolidated financial statements included in this report for additional information.

None of the other changes to GAAP that went into effect during the year ended December 31, 2016 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 (e.g., full retrospective or modified retrospective), see Note 2 to our consolidated financial statements included in this report.

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. The requirements of ASU 2014-09 are effective for us beginning in the first quarter of 2018. We evaluated the impact of the guidance on our primary revenue sources and concluded that the adoption of the standard will not have a material effect on our revenue trends. We are still in the process of evaluating the effect that ASU 2014-09 may have on certain of our costs associated with business development and deal origination. We expect to adopt ASU 2014-09 using a modified retrospective application approach.

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 17 to our consolidated financial statements included in this report for details related to our existing operating lease obligations as of December 31, 2016.

ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 will change how companies account for certain aspects of share-based payments to employees. The requirements of ASU 2016-09 are effective for us beginning in the first quarter of 2017 with early adoption permitted. We do not expect the impact of adoption to be material; however, the change to the treatment of excess tax benefits and deficiencies could have a material effect on our future income tax expense trends.

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

	Year Ended December 31, 2016		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Loss Attributable to Class A Shareholders—GAAP	\$ (126,279)	\$ (4,483)	\$ (130,762)
Change in redemption value of Preferred Units	6,082	—	6,082
Net (Loss) Income Allocated to Och-Ziff Capital Management Group LLC—GAAP	(120,197)	(4,483)	(124,680)
Net loss allocated to the Och-Ziff Operating Group A Units	(195,087)	—	(195,087)
Equity-based compensation	72,650	2,567	75,217
Income taxes	10,787	99	10,886
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	6,752	6,752
Changes in tax receivable agreement liability	1,663	—	1,663
Depreciation, amortization and loss on asset held for sale	19,269	613	19,882
Other adjustments	(6,091)	(117)	(6,208)
Economic Income—Non-GAAP	\$ (217,006)	\$ 5,431	\$ (211,575)

	Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net (Loss) Income Attributable to Class A Shareholders—GAAP	\$ (13,688)	\$ 39,428	\$ 25,740
Net income allocated to the Och-Ziff Operating Group A Units	136,449	—	136,449
Equity-based compensation, net of RSUs settled in cash	103,643	2,922	106,565
Income taxes	132,224	—	132,224
Adjustment for incentive income allocations from consolidated funds subject to clawback	1,165	(46,242)	(45,077)
Allocations to Och-Ziff Operating Group D Units	11,974	701	12,675
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	8,612	8,612
Reorganization expenses	14,064	—	14,064
Changes in tax receivable agreement liability	(55,852)	—	(55,852)
Depreciation, amortization and loss on asset held for sale	10,583	748	11,331
Other adjustments	(405)	(1,110)	(1,515)
Economic Income—Non-GAAP	\$ 340,157	\$ 5,059	\$ 345,216

Year Ended December 31, 2014			
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Income Attributable to Class A Shareholders—GAAP	\$ 115,698	\$ 26,747	\$ 142,445
Net income allocated to the Och-Ziff Operating Group A Units	365,793	—	365,793
Equity-based compensation, net of RSUs settled in cash	102,505	1,829	104,334
Income taxes	138,938	110	139,048
Adjustment for incentive income allocations from consolidated funds subject to clawback	(21,099)	(11,638)	(32,737)
Allocations to Och-Ziff Operating Group D Units	25,360	1,650	27,010
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	2,816	2,816
Reorganization expenses	16,083	—	16,083
Changes in tax receivable agreement liability	(40,383)	—	(40,383)
Depreciation and amortization	6,242	748	6,990
Other adjustments	(1,137)	(319)	(1,456)
Economic Income—Non-GAAP	\$ 708,000	\$ 21,943	\$ 729,943

Year Ended December 31, 2013			
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Income Attributable to Class A Shareholders—GAAP	\$ 260,612	\$ 1,155	\$ 261,767
Net income allocated to the Och-Ziff Operating Group A Units	616,843	—	616,843
Equity-based compensation, net of RSUs settled in cash	120,125	—	120,125
Income taxes	95,687	—	95,687
Adjustment for incentive income allocations from consolidated funds subject to clawback	(23,656)	(16,481)	(40,137)
Allocations to Och-Ziff Operating Group D Units	19,954	—	19,954
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	—	7,854	7,854
Reorganization expenses	16,087	—	16,087
Changes in tax receivable agreement liability	(8,514)	—	(8,514)
Depreciation and amortization	7,503	748	8,251
Other adjustments	(405)	1,184	779
Economic Income—Non-GAAP	\$ 1,104,236	\$ (5,540)	\$ 1,098,696

	Year Ended December 31, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Income (Loss) Attributable to Class A Shareholders—GAAP	\$ (336,788)	\$ 26,065	\$ (310,723)
Net loss allocated to the Och-Ziff Operating Group A Units	(538,055)	—	(538,055)
Equity-based compensation	85,927	79	86,006
Income taxes	82,852	9	82,861
Allocations to Och-Ziff Operating Group D Units	9,296	—	9,296
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	(6)	(36,412)	(36,418)
Reorganization expenses	1,396,882	—	1,396,882
Changes in tax receivable agreement liability	(13,428)	—	(13,428)
Depreciation and amortization	8,611	751	9,362
Other adjustments	(100)	8,431	8,331
Economic Income—Non-GAAP	\$ 695,191	\$ (1,077)	\$ 694,114

Economic Income Revenues

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$ 512,406	\$ 20,750	\$ 533,156	\$ 623,869	\$ 20,122	\$ 643,991
Adjustment to management fees ⁽¹⁾	(38,424)	—	(38,424)	(1,804)	—	(1,804)
Management Fees—Economic Income Basis—Non-GAAP	473,982	20,750	494,732	622,065	20,122	642,187
Incentive income—GAAP	224,990	8,450	233,440	187,563	—	187,563
Adjustment to incentive income ⁽²⁾	—	—	—	10,232	7,217	17,449
Incentive Income—Economic Income Basis—Non-GAAP	224,990	8,450	233,440	197,795	7,217	205,012
Other revenues	1,978	28	2,006	2,045	32	2,077
Total Revenues—Economic Income Basis—Non-GAAP	\$ 700,950	\$ 29,228	\$ 730,178	\$ 821,905	\$ 27,371	\$ 849,276

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$ 648,945	\$ 15,276	\$ 664,221	\$ 545,533	\$ 10,894	\$ 556,427
Adjustment to management fees ⁽¹⁾	(14,938)	—	(14,938)	(10,668)	—	(10,668)
Management Fees—Economic Income Basis—Non-GAAP	634,007	15,276	649,283	534,865	10,894	545,759
Incentive income—GAAP	507,261	—	507,261	1,076,547	—	1,076,547
Adjustment to incentive income ⁽²⁾	20,637	31,272	51,909	6,031	—	6,031
Incentive Income—Economic Income Basis—Non-GAAP	527,898	31,272	559,170	1,082,578	—	1,082,578
Other revenues	1,275	28	1,303	2,130	20	2,150
Total Revenues—Economic Income Basis—Non-GAAP	\$ 1,163,180	\$ 46,576	\$ 1,209,756	\$ 1,619,573	\$ 10,914	\$ 1,630,487
	Year Ended December 31, 2012					
	Och-Ziff Funds Segment	Other Operations	Total Company			
Management fees—GAAP	\$ 493,779	\$ 10,616	\$ 504,395			
Adjustment to management fees ⁽¹⁾	(14,400)	—	(14,400)			
Management Fees—Economic Income Basis—Non-GAAP	479,379	10,616	489,995			
Incentive income—GAAP	595,727	—	595,727			
Adjustment to incentive income ⁽²⁾	4,707	—	4,707			
Incentive Income—Economic Income Basis—Non-GAAP	600,434	—	600,434			
Other revenues	930	108	1,038			
Total Revenues—Economic Income Basis—Non-GAAP	\$ 1,080,743	\$ 10,724	\$ 1,091,467			

(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 Och-Ziff funds is also removed.

(2) Adjustment to exclude the impact of eliminations related to the consolidated Och-Ziff funds.

Economic Income Expenses

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	\$ 379,968	\$ 29,915	\$ 409,883	\$ 398,015	\$ 32,511	\$ 430,526
Adjustment to compensation and benefits ⁽¹⁾	(70,798)	(9,319)	(80,117)	(115,617)	(12,235)	(127,852)
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$ 309,170	\$ 20,596	\$ 329,766	\$ 282,398	\$ 20,276	\$ 302,674
Interest expense and general, administrative and other expenses—GAAP	\$ 668,093	\$ 3,814	\$ 671,907	\$ 202,795	\$ 2,785	\$ 205,580
Adjustment to interest expense and general, administrative and other expenses ⁽²⁾	(59,356)	(613)	(59,969)	(3,433)	(749)	(4,182)
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	\$ 608,737	\$ 3,201	\$ 611,938	\$ 199,362	\$ 2,036	\$ 201,398

	Year Ended December 31, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Compensation and benefits—GAAP	\$ 463,963	\$ 28,749	\$ 492,712
Adjustment to compensation and benefits ⁽¹⁾	(127,866)	(6,294)	(134,160)
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$ 336,097	\$ 22,455	\$ 358,552
Interest expense and general, administrative and other expenses—GAAP	\$ 138,040	\$ 2,926	\$ 140,966
Adjustment to interest expense and general, administrative and other expenses ⁽²⁾	(14,075)	(748)	(14,823)
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	\$ 123,965	\$ 2,178	\$ 126,143

- (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 recognized at the end of the relevant commitment period, 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 Och-Ziff Operating Group D Units are also excluded, as management reviews operating performance at the Och-Ziff Operating Group level, where our operations are performed, prior to making any income allocations.
- (2) Adjustment to exclude depreciation, amortization, gains and losses on assets held for sale and changes in the tax receivable agreement liability, 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

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net gains on investments in Och-Ziff funds and joint ventures—GAAP	\$ 3,104	\$ 656	\$ 3,760	\$ 66	\$ 2	\$ 68
Adjustment to net gains on investments in Och-Ziff funds and joint ventures ⁽¹⁾	(3,167)	(656)	(3,823)	(66)	(2)	(68)
Net Losses on Joint Ventures—GAAP	\$ (63)	\$ —	\$ (63)	\$ —	\$ —	\$ —
Net (loss) income attributable to noncontrolling interests—GAAP	\$ (194,087)	\$ 330	\$ (193,757)	\$ 89,057	\$ 102,120	\$ 191,177
Adjustment to net (loss) income attributable to noncontrolling interests ⁽²⁾	194,073	(330)	193,743	(89,069)	(102,120)	(191,189)
Net Loss Attributable to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$ (14)	\$ —	\$ (14)	\$ (12)	\$ —	\$ (12)

	Year Ended December 31, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net gains on investments in Och-Ziff funds and joint ventures—GAAP	\$ 5,999	\$ —	\$ 5,999
Adjustment to net gains on investments in Och-Ziff funds and joint ventures ⁽¹⁾	(1,125)	—	(1,125)
Net Gains on Joint Ventures—GAAP	\$ 4,874	\$ —	\$ 4,874
Net income attributable to noncontrolling interests—GAAP	\$ 433,528	\$ 101,760	\$ 535,288
Adjustment to net income attributable to noncontrolling interests ⁽²⁾	(433,536)	(101,760)	(535,296)
Net Loss Attributable to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$ (8)	\$ —	\$ (8)

(1) Adjustment to exclude gains and losses on investments in Och-Ziff 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 Och-Ziff Operating Group, as management reviews operating performance at the Och-Ziff Operating Group level. We conduct substantially all of our activities through the Och-Ziff Operating Group. Additionally, the impact of the consolidated Och-Ziff funds, including the allocation of earnings to investors in those funds, is also removed.

Item 7A. 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 Och-Ziff 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 Och-Ziff 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 Och-Ziff funds affect the management fees and incentive income we may earn from the funds.

With regards to the consolidated Och-Ziff funds, the net effect of these fair value changes primarily impacts the net gains of consolidated Och-Ziff 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.

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 December 31, 2016 and 2015, would have resulted in a change of approximately \$2.6 billion and \$3.5 billion, respectively, in our assets under management.

A 10% change in the fair value of the net assets held by our funds as of January 1, 2017 (the date management fees are calculated for the first quarter of 2017) would impact management fees charged on that day by approximately \$5.6 million. A 10% change in the fair value of the net assets held by our funds as of January 1, 2016, would have impacted management fees charged on that day by approximately \$11.4 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 December 31, 2016 and 2015, 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 and Aircraft Loan are fixed-rate borrowings. Our borrowings under the Revolving Credit Facility, CLO Investment Loan and investments in CLO 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 December 31, 2016 and 2015, 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 8. Financial Statements and Supplementary Data

Our financial statements, the related notes thereto and the report of independent auditors are included in this annual report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in and disagreements with accountants on accounting and financial disclosure.

Item 9A. 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 December 31, 2016, 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.

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.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2016. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2016. We reviewed the results of management's assessment and re-assessment with the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, Ernst & Young LLP, independently assessed the effectiveness of the Company's internal control over financial reporting. Ernst & Young LLP has audited our financial statements included in this annual report and issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2016, which is set forth on the following page.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On February 27, 2017, we adopted the DCI Plan identified above. DCIs issued under the DCI Plan reflect notional Och-Ziff fund investments made by the Company on behalf of an executive managing director. DCIs generally vest in three equal portions over three years commencing on January 1st of the calendar year following the applicable grant date, subject to an executive managing director's continued service. Upon vesting, the Company pays the 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 DCI Plan or in an award agreement, in the event of a termination of the executive managing director's service, any portion of the DCIs that are unvested as of the date of termination will be forfeited.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Och-Ziff Capital Management Group LLC

We have audited Och-Ziff Capital Management Group LLC's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Och-Ziff Capital Management Group LLC's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Och-Ziff Capital Management Group LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Och-Ziff Capital Management Group LLC as of December 31, 2016 and 2015 and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
March 1, 2017

PART III

The information required to be disclosed in this Part III will be included in the definitive proxy statement for our 2017 annual meeting of shareholders, which we refer to as the “Proxy Statement,” and is incorporated into this Part III by reference as indicated below.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in the Proxy Statement under the headings “Proposal No. 1 Election of Class I Directors,” “Ownership of Securities—Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance—Committees of the Board—Audit Committee” and is incorporated herein by reference.

Pursuant to Item 401(b) of Regulation S-K, the information required under this Item 10 pertaining to our executive officers is reported in “Item 1. Business—Our Executive Officers,” included in this annual report.

We have adopted a Code of Business Conduct and Ethics applicable to all our directors, officers and employees. Our Code of Business Conduct and Ethics is posted in the “Public Investors” section of our website (www.ozcap.com). We will provide printed copies of our code free of charge on written request to us at Och-Ziff Capital Management Group LLC, 9 West 57th Street, New York, New York 10019, Attention: Office of the Secretary. We intend to disclose any amendments to, or waivers from, provisions of our code that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or any person performing in similar functions, on our website promptly following the date of such amendment or waiver.

Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement under the heading “Executive and Director Compensation” and is incorporated herein by reference.

The “Compensation Committee Report” contained in our Proxy Statement shall not be deemed “soliciting material” or “filed” with the SEC or otherwise subject to the liabilities of Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in the Proxy Statement under the headings “Ownership of Securities—Security Ownership of Certain Beneficial Owners and Management” and “Executive and Director Compensation—Equity Compensation Plans” and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement under the headings “Corporate Governance—Director Independence” and “Certain Matters and Related Person Transactions” and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 will be included in the sections of the Proxy Statement entitled “Principal Accountant Fees and Services” and “Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm” under the heading “Ratification of the Appointment of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. The financial statements included in this annual report are listed on page F-1.
2. Financial statement schedules:
None.
3. Exhibits included or incorporated by reference herein:
See Exhibit Index following the signatures page below.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 1, 2017

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

By: /s/ Alesia J. Haas

Alesia J. Haas

Chief Financial Officer and Executive Managing Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Daniel S. Och</u> Daniel S. Och	Chief Executive Officer, Executive Managing Director, Chairman of the Board of Directors (Principal Executive Officer)	March 1, 2017
<u>/s/ Alesia J. Haas</u> Alesia J. Haas	Chief Financial Officer and Executive Managing Director (Principal Financial Officer)	March 1, 2017
<u>/s/ Erez Elisha</u> Erez Elisha	Chief Accounting Officer and Managing Director (Principal Accounting Officer)	March 1, 2017
<u>/s/ David Windreich</u> David Windreich	Executive Managing Director and Director	March 1, 2017
<u>/s/ Allan S. Bufferd</u> Allan S. Bufferd	Director	March 1, 2017
<u>/s/ J. Barry Griswell</u> J. Barry Griswell	Director	March 1, 2017
<u>/s/ Jerome P. Kenney</u> Jerome P. Kenney	Director	March 1, 2017
<u>/s/ Georganne C. Proctor</u> Georganne C. Proctor	Director	March 1, 2017
<u>/s/ William P. Barr</u> William P. Barr	Director	March 1, 2017

Exhibit Index

Exhibit No.	Description
3.1	Certificate of Formation of Och-Ziff Capital Management Group LLC, dated as of June 6, 2007, incorporated herein by reference to Exhibit 3.1 of Amendment No. 3 to our Registration Statement on Form S-1, filed on October 12, 2007 (File No. 333-144256).
3.2	Second Amended and Restated Limited Liability Company Agreement of Och-Ziff Capital Management Group LLC, dated as of November 13, 2007, incorporated herein by reference to Exhibit 3.2 of our Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 26, 2008.
4.1	Specimen of Class A Specimen Share Certificate (included in Exhibit 3.2).
4.2	Class B Shareholders Agreement by and among Och-Ziff Capital Management Group LLC and the Class B Shareholders, dated as of November 13, 2007, incorporated herein by reference to Exhibit 4.2 of our Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 26, 2008.
4.3	First Amended and Restated Registration Rights Agreement by and among Och-Ziff Capital Management Group LLC and the Och-Ziff Limited Partners, dated as of August 1, 2012, incorporated herein by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the period ended June 30, 2012, filed on August 2, 2012.
4.4	Registration Rights Agreement by and among Och-Ziff Capital Management Group LLC and DIC Sahir Limited, dated as of November 19, 2007, incorporated herein by reference to Exhibit 4.4 of our Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 26, 2008.
4.5	Indenture, dated as of November 20, 2014, among Och-Ziff Finance Co. LLC, the Guarantors party thereto and Wilmington Trust, National Association, as trustee, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on November 20, 2014.
4.6	First Supplemental Indenture, dated as of November 20, 2014, among Och-Ziff Finance Co. LLC, the Guarantors party thereto and Wilmington Trust, National Association, as trustee, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on November 20, 2014.
4.7	Form of 4.500% Senior Note due 2019 (included in Exhibit 4.6 hereto).
4.8	Unit Designation of the Preferences and Relative, Participating, Optional, and Other Special Rights, Powers and Duties of Class A Cumulative Preferred Units of OZ Management LP, incorporated herein by reference to Exhibit 4.1 of our Current Report on Form 8-K, filed on October 11, 2016.
4.9	Unit Designation of the Preferences and Relative, Participating, Optional, and Other Special Rights, Powers and Duties of Class A Cumulative Preferred Units of OZ Advisors LP, incorporated herein by reference to Exhibit 4.2 of our Current Report on Form 8-K, filed on October 11, 2016.
4.10	Unit Designation of the Preferences and Relative, Participating, Optional, and Other Special Rights, Powers and Duties of Class A Cumulative Preferred Units of OZ Advisors II LP, incorporated herein by reference to Exhibit 4.3 of our Current Report on Form 8-K, filed on October 11, 2016.
10.1	Form of Indemnification Agreement, incorporated herein by reference to Exhibit 10.2 of Amendment No. 4 to our Registration Statement on Form S-1, filed on October 17, 2007 (File No. 333-144256).
10.2	Amended and Restated Tax Receivable Agreement by and among inter alia Och-Ziff Capital Management Group LLC, Och-Ziff Holding Corp., Och-Ziff Holding LLC, OZ Management LP, OZ Advisors LP, and OZ Advisors II LP, dated as of January 12, 2009, incorporated herein by reference to Exhibit 10.3 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 12, 2009.
10.3	Amended and Restated Exchange Agreement by and among the Och-Ziff Capital Management Group LLC, Och-Ziff Corp., Och-Ziff Holding, OZ Management, OZ Advisors, OZ Advisors II, and the Och-Ziff Limited Partners and Class B Shareholders, dated as of August 1, 2012, incorporated herein by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended June 30, 2012, filed on August 2, 2012.

Exhibit No.	Description
10.4+	Och-Ziff Capital Management Group LLC Amended and Restated 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of our Registration Statement on Form S-8, filed on November 12, 2008 (File No. 333-155315).
10.5	Certificate of Incorporation of Och-Ziff Holding Corporation, dated as of July 12, 2007, incorporated herein by reference to Exhibit 10.8 of Amendment No. 3 to our Registration Statement on Form S-1, filed on October 12, 2007 (File No. 333-144256).
10.6	Bylaws of Och-Ziff Holding Corporation, dated as of July 17, 2007, incorporated herein by reference to Exhibit 10.9 of Amendment No. 3 to our Registration Statement on Form S-1, filed on October 12, 2007 (File No. 333-144256).
10.7	Certificate of Formation of Och-Ziff Holding LLC, dated as of June 13, 2007, incorporated herein by reference to Exhibit 10.10 of Amendment No. 3 to our Registration Statement on Form S-1, filed on October 12, 2007 (File No. 333-144256).
10.8	Second Amended and Restated Operating Agreement of Och-Ziff Holding LLC, dated as of November 11, 2007, incorporated herein by reference to Exhibit 10.11 of our Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 26, 2008.
10.9+	Employment Agreement by and between Zoltan Varga and a subsidiary of the Registrant, dated as of November 5, 2007, incorporated herein by reference to Exhibit 10.15 of Amendment No. 8 to our Registration Statement on Form S-1, filed on November 8, 2007 (File No. 333-144256).
10.10+	Form of Class A Restricted Share Unit Award Agreement Under the Och-Ziff Capital Management Group LLC 2013 Incentive Plan (for the Independent Directors), amended as of October 29, 2015, incorporated herein by reference to Exhibit 10.13 of our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 11, 2016.
10.11+	The Och-Ziff Capital Management Group LLC 2012 Partner Incentive Plan, approved as of August 1, 2012, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on August 2, 2012.
10.12	Amendment to Amended and Restated Exchange Agreement, dated as of August 1, 2012, by and among Och-Ziff Capital Management Group LLC, Och-Ziff Corp., Och-Ziff Holding, OZ Management, OZ Advisors, OZ Advisors II, and the Och-Ziff Limited Partners and Class B Shareholders, dated as of November 14, 2012, incorporated by reference to Exhibit 10.31 of our Annual Report on Form 10-K for the year ended December 31, 2012 filed, on February 28, 2013.
10.13+	The Och-Ziff Capital Management Group LLC 2013 Incentive Plan, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on May 8, 2013.
10.14	Credit and Guaranty Agreement, dated as of November 20, 2014, among OZ Management LP, as borrower, OZ Advisors LP, OZ Advisors II LP and Och-Ziff Finance Co. LLC, as guarantors, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Goldman Sachs Bank USA, as syndication agent, and J.P. Morgan Securities LLC and Goldman Sachs Bank USA, as joint lead arrangers and joint bookrunners, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on November 20, 2014.
10.15	Amendment No. 1 to Credit and Guaranty Agreement, dated as of December 29, 2015, among OZ Management LP, as borrower, OZ Advisors LP, OZ Advisors II LP and Och-Ziff Finance Co. LLC, as guarantors, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, incorporated herein by reference to Exhibit 10.18 of our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 11, 2016.
10.16	Securities Purchase Agreement, dated September 29, 2016, by and among OZ Management LP, OZ Advisors LP, OZ Advisors II LP and the Purchasers party thereto, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on September 29, 2016.

Exhibit No.	Description
10.17	Amendment to Tax Receivable Agreement, dated as of September 29, 2016, by and among inter alia Och-Ziff Capital Management Group LLC, Och-Ziff Holding Corp., Och-Ziff Holding LLC, OZ Management LP, OZ Advisors LP, and OZ Advisors II LP, incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on September 29, 2016.
10.18	Plea Agreement, dated as of September 29, 2016, by and among OZ Africa Management GP, LLC, the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of New York, incorporated herein by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q, filed on November 2, 2016.
10.19	Deferred Prosecution Agreement, dated as of September 29, 2016, by and among Och-Ziff Capital Management Group LLC, the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of New York, incorporated herein by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q, filed on November 2, 2016.
10.20	Order Instituting Administrative and Cease-and-Desist Proceedings pursuant to Section 21C of the Securities Exchange Act of 1934 and Sections 203(e) and (k) of the Investment Advisers Act of 1940, dated as of September 29, 2016, between Och-Ziff Capital Management Group LLC, et. al and the U.S. Securities and Exchange Commission, incorporated herein by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q, filed on November 2, 2016.
10.21+	Partner Agreement between OZ Management LP and James Levin, dated as of November 10, 2010, incorporated herein by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.22+	Partner Agreement between OZ Advisors LP and James Levin, dated as of November 10, 2010, incorporated herein by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.23+	Partner Agreement between OZ Advisors II LP and James Levin, dated as of November 10, 2010, incorporated herein by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.24+	Partner Agreement between OZ Management LP and James Levin, dated as of June 22, 2011, incorporated herein by reference to Exhibit 10.5 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.25+	Partner Agreement between OZ Advisors LP and James Levin, dated as of June 22, 2011, incorporated herein by reference to Exhibit 10.6 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.26+	Partner Agreement between OZ Advisors II LP and James Levin, dated as of June 22, 2011, incorporated herein by reference to Exhibit 10.7 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.27+	Partner Agreement between OZ Management LP and James Levin, dated as of December 13, 2011, incorporated herein by reference to Exhibit 10.8 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.28+	Partner Agreement between OZ Advisors LP and James Levin, dated as of December 13, 2011, incorporated herein by reference to Exhibit 10.9 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.29+	Partner Agreement between OZ Advisors II LP and James Levin, dated as of December 13, 2011, incorporated herein by reference to Exhibit 10.10 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.30+	Partner Agreement between OZ Management LP and James Levin, dated as of January 28, 2013, incorporated herein by reference to Exhibit 10.11 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.31+	Partner Agreement between OZ Advisors LP and James Levin, dated as of January 28, 2013, incorporated herein by reference to Exhibit 10.12 of our Quarterly Report on Form 8-K, filed on May 2, 2014.
10.32+	Partner Agreement between OZ Advisors II LP and James Levin, dated as of January 28, 2013, incorporated herein by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q, filed on May 2, 2014.
10.33+*	Partner Agreement between OZ Management LP and Alesia J. Haas, dated as of December 9, 2016.
10.34+*	Partner Agreement between OZ Advisors LP and Alesia J. Haas, dated as of December 9, 2016.

Exhibit No.	Description
10.35+*	Partner Agreement between OZ Advisors II LP and Alesia J. Haas, dated as of December 9, 2016.
10.36	Amended and Restated Agreement of Limited Partnership of OZ Advisors LP, effective as of December 14, 2015, incorporated herein by reference to Exhibit 10.9 of our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 11, 2016.
10.37	Amended and Restated Agreement of Limited Partnership of OZ Advisors II LP, effective as of December 14, 2015, incorporated herein by reference to Exhibit 10.10 of our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 11, 2016.
10.38	Amended and Restated Agreement of Limited Partnership of OZ Management LP, effective as of December 14, 2015, incorporated herein by reference to Exhibit 10.11 of our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 11, 2016.
10.39+*	Och-Ziff Deferred Cash Interest Plan
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP.
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.
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
<hr/>	
*	Filed herewith
+	Management contract or compensatory plan or arrangement

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>	<u>F-3</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-4</u>
<u>Consolidated Statements of Changes in Shareholders' Equity (Deficit) for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014</u>	<u>F-8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-10</u>

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Och-Ziff Capital Management Group LLC

We have audited the accompanying consolidated balance sheets of Och-Ziff Capital Management Group LLC (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), changes in shareholders’ equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Och-Ziff Capital Management Group LLC at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted, on a modified retrospective basis, the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-02, “Amendments to the Consolidation Analysis,” effective January 1, 2016.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Och-Ziff Capital Management Group LLC’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
March 1, 2017

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
Assets		
Cash and cash equivalents	\$ 329,813	\$ 254,070
Income and fees receivable	176,638	93,846
Due from related parties	20,494	8,096
Deferred income tax assets	695,441	719,954
Other assets, net (includes assets measured at fair value of \$21,341 and \$18,501 as of December 31, 2016 and 2015, respectively)	207,964	192,975
<i>Assets of consolidated Och-Ziff funds:</i>		
Investments, at fair value	37,661	9,071,933
Other assets of Och-Ziff funds	17,544	344,769
Total Assets	\$ 1,485,555	\$ 10,685,643
Liabilities and Shareholders' (Deficit) Equity		
Liabilities		
Compensation payable	\$ 206,106	\$ 176,602
Due to related parties	522,101	593,390
Debt obligations	577,128	443,069
Other liabilities (includes liabilities measured at fair value of \$8,204 and \$0 as of December 31, 2016 and 2015, respectively)	174,994	83,813
<i>Liabilities of consolidated Och-Ziff funds:</i>		
Notes and loans payable of consolidated CLOs, at fair value	—	7,077,679
Securities sold under agreements to repurchase	—	190,751
Other liabilities of Och-Ziff funds (includes liabilities measured at fair value of \$0 and \$2,825 as of December 31, 2016 and 2015, respectively)	15,197	47,487
Total Liabilities	1,495,526	8,612,791
Commitments and Contingencies (Note 17)		
Redeemable Noncontrolling Interests (Note 4)	284,121	832,284
Shareholders' (Deficit) Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 184,843,255 and 181,026,455 shares issued and outstanding as of December 31, 2016 and 2015, respectively	—	—
Class B Shares, no par value, 750,000,000 shares authorized, 297,317,019 and 297,317,400 shares issued and outstanding as of December 31, 2016 and 2015, respectively	—	—
Paid-in capital	3,097,431	3,040,655
Appropriated retained deficit	—	(59,663)
Accumulated deficit	(3,563,452)	(3,396,822)
Shareholders' deficit attributable to Class A Shareholders	(466,021)	(415,830)
Shareholders' equity attributable to noncontrolling interests	171,929	1,656,398
Total Shareholders' (Deficit) Equity	(294,092)	1,240,568
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' (Deficit) Equity	\$ 1,485,555	\$ 10,685,643

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Revenues			
Management fees	\$ 533,156	\$ 643,991	\$ 664,221
Incentive income	233,440	187,563	507,261
Other revenues	2,006	2,077	1,303
Income of consolidated Och-Ziff funds	1,762	489,350	369,499
Total Revenues	770,364	1,322,981	1,542,284
Expenses			
Compensation and benefits	409,883	430,526	492,712
Reorganization expenses	—	14,064	16,083
Interest expense	23,776	21,441	8,166
General, administrative and other	648,131	184,139	132,800
Expenses of consolidated Och-Ziff funds	350	303,770	185,888
Total Expenses	1,082,140	953,940	835,649
Other Income (Loss)			
Net gains on investments in Och-Ziff funds and joint ventures	3,760	68	5,999
Net gains (losses) of consolidated Och-Ziff funds	2,915	(69,572)	137,726
Total Other Income (Loss)	6,675	(69,504)	143,725
(Loss) Income Before Income Taxes	(305,101)	299,537	850,360
Income taxes	10,886	132,224	139,048
Consolidated and Comprehensive Net (Loss) Income	(315,987)	167,313	711,312
Less: Loss (income) attributable to noncontrolling interests	193,757	(191,177)	(535,288)
Less: (Income) loss attributable to redeemable noncontrolling interests	(2,450)	49,604	(33,579)
Net (Loss) Income Attributable to Och-Ziff Capital Management Group LLC	(124,680)	25,740	142,445
Less: Change in redemption value of Preferred Units	(6,082)	—	—
Net (Loss) Income Attributable to Class A Shareholders	\$ (130,762)	\$ 25,740	\$ 142,445
(Loss) Earnings per Class A Share			
(Loss) earnings per Class A Share - basic	\$ (0.72)	\$ 0.14	\$ 0.82
(Loss) earnings per Class A Share - diluted	\$ (0.73)	\$ 0.14	\$ 0.80
Weighted-average Class A Shares outstanding - basic	182,670,173	177,935,977	172,843,926
Weighted-average Class A Shares outstanding - diluted	479,987,268	180,893,947	178,179,112
Dividends Paid per Class A Share	\$ —	\$ 0.87	\$ 1.72

See notes to consolidated financial statements.

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

Och-Ziff Capital Management Group LLC								
	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Appropriated Retained Earnings (Deficit)	Accumulated Deficit	Shareholders' Deficit Attributable to Class A Shareholders	Shareholders' Equity Attributable to Noncontrolling Interests	Total Shareholders' Equity
(dollars in thousands)								
As of December 31, 2013	169,641,610	301,884,116	\$ 2,958,324	\$ 12,872	\$ (3,104,917)	\$ (133,721)	\$ 2,348,745	\$ 2,215,024
Capital contributions	—	—	—	—	—	—	175,309	175,309
Capital distributions	—	—	—	—	—	—	(1,136,294)	(1,136,294)
Cash dividends declared on Class A Shares	—	—	—	—	(293,135)	(293,135)	—	(293,135)
Dividend equivalents on Class A restricted share units	—	—	8,697	—	(8,697)	—	—	—
Equity-based compensation, net of taxes	4,959,473	—	31,688	—	—	31,688	50,159	81,847
Och-Ziff Operating Group A Unit exchanges (Note 4)	1,345,472	—	1,205	—	—	1,205	—	1,205
Impact of changes in Och-Ziff Operating Group ownership (Note 4)	—	—	(739)	—	—	(739)	739	—
Acquisition of noncontrolling interests	—	—	(141)	—	—	(141)	(251)	(392)
Initial consolidation of CLOs	—	—	—	(45,303)	—	(45,303)	—	(45,303)
Allocation of income of consolidated CLOs	—	—	—	1,095	—	1,095	(1,095)	—
Impact of amortization of Reorganization charges on capital	—	—	5,847	—	—	5,847	10,236	16,083
Comprehensive net income, excluding amounts attributable to redeemable noncontrolling interests	—	—	—	—	142,445	142,445	535,288	677,733
As of December 31, 2014	175,946,555	301,884,116	\$ 3,004,881	\$ (31,336)	\$ (3,264,304)	\$ (290,759)	\$ 1,982,836	\$ 1,692,077

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

Och-Ziff Capital Management Group LLC								
	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Appropriated Retained Earnings (Deficit)	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, 2014	175,946,555	301,884,116	\$ 3,004,881	\$ (31,336)	\$ (3,264,304)	\$ (290,759)	\$ 1,982,836	\$ 1,692,077
Capital contributions	—	—	—	—	—	—	261,417	261,417
Capital distributions	—	—	—	—	—	—	(822,570)	(822,570)
Cash dividends declared on Class A Shares	—	—	—	—	(153,452)	(153,452)	—	(153,452)
Dividend equivalents on Class A restricted share units	—	—	4,806	—	(4,806)	—	—	—
Equity-based compensation, net of taxes	5,079,900	(10,110)	31,614	—	—	31,614	56,815	88,429
Och-Ziff Operating Group A Unit repurchase (Note 4)	—	(4,556,606)	(6,315)	—	—	(6,315)	(14,161)	(20,476)
Impact of changes in Och-Ziff Operating Group ownership (Note 4)	—	—	455	—	—	455	(455)	—
Initial consolidation of CLOs	—	—	—	(35,838)	—	(35,838)	—	(35,838)
Allocation of income of consolidated CLOs	—	—	—	7,511	—	7,511	(7,511)	—
Impact of amortization of Reorganization charges on capital	—	—	5,214	—	—	5,214	8,850	14,064
Comprehensive net income, excluding amounts attributable to redeemable noncontrolling interests	—	—	—	—	25,740	25,740	191,177	216,917
As of December 31, 2015	181,026,455	297,317,400	\$ 3,040,655	\$ (59,663)	\$ (3,396,822)	\$ (415,830)	\$ 1,656,398	\$ 1,240,568

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) — (continued)

Och-Ziff Capital Management Group LLC								
	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Appropriated Retained Deficit	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, 2015	181,026,455	297,317,400	\$ 3,040,655	\$ (59,663)	\$ (3,396,822)	\$ (415,830)	\$ 1,656,398	\$ 1,240,568
Deconsolidation of Och-Ziff funds on adoption of ASU 2015-02 (Note 3)	—	—	—	59,663	(42,626)	17,037	(1,321,128)	(1,304,091)
Capital contributions	—	—	—	—	—	—	3,015	3,015
Capital distributions	—	—	—	—	—	—	(477)	(477)
Dividend equivalents on Class A restricted share units	—	—	(676)	—	676	—	—	—
Equity-based compensation, net of taxes	3,816,800	(381)	20,848	—	—	20,848	41,292	62,140
Impact of changes in Och-Ziff Operating Group ownership (Note 4)	—	—	(2,137)	—	—	(2,137)	2,137	—
Waiver of payments under tax receivable agreement (Note 17)	—	—	44,823	—	—	44,823	(5,590)	39,233
Change in redemption value of Preferred Units	—	—	(6,082)	—	—	(6,082)	(9,961)	(16,043)
Comprehensive net loss, excluding amounts attributable to redeemable noncontrolling interests	—	—	—	—	(124,680)	(124,680)	(193,757)	(318,437)
As of December 31, 2016	184,843,255	297,317,019	\$ 3,097,431	\$ —	\$ (3,563,452)	\$ (466,021)	\$ 171,929	\$ (294,092)

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Cash Flows from Operating Activities			
Consolidated net (loss) income	\$ (315,987)	\$ 167,313	\$ 711,312
<i>Adjustments to reconcile consolidated net income to net cash provided by operating activities:</i>			
Reorganization expenses	—	14,064	16,083
Amortization of equity-based compensation	75,217	112,639	114,727
Depreciation, amortization and loss on asset held for sale	19,882	11,331	6,990
Deferred income taxes	2,236	115,760	111,061
<i>Operating cash flows due to changes in:</i>			
Income and fees receivable	(74,077)	346,481	502,262
Due from related parties	(10,502)	(3,133)	351
Other assets, net	(12,136)	23,625	(23,106)
Due to related parties	1,320	(109,515)	(86,587)
Compensation payable	29,479	(67,913)	(69,152)
Other liabilities	7,660	(8,120)	22,130
<i>Consolidated Och-Ziff funds related items:</i>			
Net (gains) losses of consolidated Och-Ziff funds	(2,915)	69,572	(137,726)
Purchases of investments	(242,474)	(4,122,079)	(4,732,159)
Proceeds from sale of investments	231,591	4,136,801	4,275,275
Other assets of consolidated Och-Ziff funds	3,925	(120,301)	175,200
Securities sold under agreements to repurchase	—	(111,515)	44,575
Other liabilities of consolidated Och-Ziff funds	5,319	(12,731)	19,147
Net Cash (Used in) Provided by Operating Activities	(281,462)	442,279	950,383
Cash Flows from Investing Activities			
Purchases of fixed assets	(8,808)	(43,801)	(74,921)
Purchases of United States government obligations	(59,909)	—	(36,974)
Maturities of United States government obligations	78,500	18,473	—
Investment in Och-Ziff funds	(40,920)	(2,826)	(15,522)
Return of investment in Och-Ziff funds	14,696	384	15,970
Other, net	(17)	—	8,169
Net Cash Used in Investing Activities	(16,458)	(27,770)	(103,278)

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

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Cash Flows from Financing Activities			
Issuance and sale of Preferred Units, net of issuance costs	246,457	—	—
Contributions from noncontrolling and redeemable noncontrolling interests	3,019	602,654	610,918
Distributions to noncontrolling and redeemable noncontrolling interests	(477)	(824,890)	(1,136,294)
Och-Ziff Operating Group A Unit repurchase	—	(22,783)	—
Dividends on Class A Shares	—	(153,452)	(293,135)
Proceeds from debt obligations	135,951	3,606	446,036
Repayment of debt obligations	(3,667)	(3,089)	(384,768)
Withholding taxes paid on vested RSUs	(7,960)	(15,865)	(26,093)
Equity-classified RSUs settled in cash	—	—	(10,393)
Other, net	340	2,777	7,253
Net Cash Provided by (Used in) Financing Activities	373,663	(411,042)	(786,476)
Net Change in Cash and Cash Equivalents	75,743	3,467	60,629
Cash and Cash Equivalents, Beginning of Period	254,070	250,603	189,974
Cash and Cash Equivalents, End of Period	\$ 329,813	\$ 254,070	\$ 250,603

Supplemental Disclosure of Cash Flow Information

Cash paid during the period:

Interest	\$ 19,514	\$ 19,446	\$ 6,198
Income taxes	\$ 9,504	\$ 19,185	\$ 21,419

Non-cash transactions:

Increase in equity as a result of waiver of payments under tax receivable agreement (Note 17)	\$ 39,233	\$ —	\$ —
Assets related to the initial consolidation of CLOs	\$ —	\$ 2,042,463	\$ 2,508,097
Liabilities related to the initial consolidation of CLOs	\$ —	\$ 2,078,301	\$ 2,553,400

See Note 3 for non-cash impact of the deconsolidation of Och-Ziff funds upon the adoption of ASU 2015-02.

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. OVERVIEW

Och-Ziff Capital Management Group LLC (the “Registrant”), a Delaware limited liability company, together with its consolidated subsidiaries (collectively, the “Company” or “Och-Ziff”), 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 (the “Och-Ziff funds” or the “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. 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 Och-Ziff funds.

The Company currently has two operating segments: the Och-Ziff Funds segment and the Company’s real estate business. The Och-Ziff 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 under GAAP.

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 Management”), OZ Advisors LP (“OZ Advisors I”) and OZ Advisors II LP (“OZ Advisors II”) and their consolidated subsidiaries (collectively, the “Och-Ziff Operating Group”). References to the Company’s “executive managing directors” refer to the current limited partners of OZ Management, OZ Advisors and OZ Advisors II other than the Company’s intermediate holding companies, including 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 (“Och-Ziff Corp”) and Och-Ziff Holding LLC, each of which are wholly owned subsidiaries of the Registrant.

Company Structure

The Registrant is a holding company that, through its intermediate holding companies, holds equity ownership interests in the Och-Ziff Operating Group. The Registrant has issued and outstanding the following share classes:

- **Class A Shares**—Class A Shares are publicly traded and entitle the holders thereof to one vote per share on matters submitted to a vote of shareholders. The holders of Class A Shares are entitled to any distributions declared by the Registrant’s Board of Directors (the “Board”).
- **Class B Shares**—Class B Shares are held by the Company’s executive managing directors. These shares are not publicly traded but rather entitle the executive managing directors to one vote per share on matters submitted to a vote of shareholders. These shares do not participate in the earnings of the Registrant, as the executive managing directors participate in the related economics of the Och-Ziff Operating Group through their direct ownership of Och-Ziff Operating Group A Units, Och-Ziff Operating Group D Units and the Preferred Units, as discussed

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

below. The executive managing directors granted to the Class B Shareholder Committee, currently consisting solely of Mr. Och, an irrevocable proxy to vote their Class B Shares in concert.

The Company conducts operations through the Och-Ziff Operating Group. The following Och-Ziff Operating Group Units represent all of the common equity interests of the Och-Ziff Operating Group:

- **Och-Ziff Operating Group A Units**—The Och-Ziff Operating Group A Units are held by the Company's executive managing directors and were held by the Ziffs until they exchanged their remaining interests during the 2014 second quarter. Once vested, these units may be exchanged on a one-to-one basis for Class A Shares, subject to minimum ownership requirements and transfer restrictions.
- **Och-Ziff Operating Group B Units**—The Och-Ziff Operating Group B Units are held by the Company's intermediate holding companies. These units represent the Company's economic interest in the Och-Ziff Operating Group.

The Company issues its executive managing directors a number of Class B Shares of the Registrant equal to the number of Och-Ziff Operating Group A Units held by each executive managing director. Upon the exchange of an Och-Ziff Operating Group A Unit for a Class A Share by an executive managing director, the corresponding Class B Share is canceled and an Och-Ziff Operating Group B Unit is issued to the intermediate holding companies of the Company.

Och-Ziff Operating Group D Units

The Company also issues Och-Ziff Operating Group D Units to executive managing directors. Och-Ziff Operating Group D Units are not considered equity for GAAP purposes, and therefore distributions made to holders of these units are recognized within compensation and benefits in the consolidated statements of comprehensive income (loss). Och-Ziff Operating Group D Units receive distributions on a pro rata basis with the Och-Ziff Operating Group A Units and the Och-Ziff Operating Group B Units. An Och-Ziff Operating Group D Unit converts into an Och-Ziff Operating Group A Unit to the extent the Company determines that it has become economically equivalent to an Och-Ziff Operating Group A Unit, at which point it is considered a grant of equity-based compensation for GAAP purposes. As of December 31, 2016, the Och-Ziff Operating Group D Units represented a 5.0% non-equity profits interest in the Och-Ziff Operating Group.

Preferred Units

The Preferred Units are non-voting preferred equity interests in the Och-Ziff Operating Group entities and have an aggregate liquidation preference of \$1,000, plus accrued and unpaid distributions. See Note 11 for additional information regarding the terms of the Preferred Units.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in accordance with GAAP as set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). All intercompany transactions and balances have been eliminated in consolidation.

The Company adopted ASU 2015-02, *Amendments to the Consolidation Analysis* as of January 1, 2016 using the modified retrospective method of transition, which resulted in a cumulative effect adjustment to opening equity. The Company did not restate prior-period results. The impact to the Company's opening retained earnings was driven by the cumulative effect of a change in incentive income recognition for the funds no longer consolidated, net of deferred income tax effects. Incentive income from funds not consolidated is recognized at the end of the applicable commitment period when the amounts are contractually payable and when no longer subject to clawback. Prior to deconsolidation, incentive income from these previously consolidated funds was recognized by allocating a portion of the net income of these funds to the Company rather than to the

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

fund investors (noncontrolling interests) based on the contractual terms of the relevant fund agreements. This resulted in incentive income being recognized that was subject to clawback in the event of future losses in the respective funds.

The deconsolidation of the majority of the Company's previously consolidated funds resulted in a substantial decrease in assets of consolidated Och-Ziff funds, liabilities of consolidated Och-Ziff funds, redeemable noncontrolling interests, appropriated retained deficit and shareholders' equity attributable to noncontrolling interests in the Company's consolidated balance sheet. Additionally, the deconsolidation has caused a significant decrease in the amount of income of consolidated Och-Ziff funds, expenses of consolidated Och-Ziff funds, and net gains of consolidated Och-Ziff funds in the Company's consolidated statements of comprehensive income (loss).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements of the Company. The most critical of these estimates are related to (i) fair value measurements of the assets and liabilities of the Och-Ziff funds, which impacts the Company's management fees and incentive income; (ii) the accounting treatment for variable interest entities; and (iii) the estimate of future taxable income, which impacts the carrying amount of the Company's deferred income tax assets. While management believes that the estimates utilized in preparing the consolidated financial statements are reasonable and prudent, actual results could differ materially from those estimates.

Foreign Currency

The functional currency of substantially all of the Company's consolidated subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at the closing rates of exchange on the balance sheet date. Gains and losses on transactions denominated in foreign currencies due to changes in exchange rates are recorded as other expenses within general, administrative and other in the consolidated statements of comprehensive income (loss).

Consolidation Policies

The Company's multi-strategy funds, open-end opportunistic credit funds and certain other fund are generally organized using a "master-feeder" structure. Fund investors, including the Company's executive managing directors, employees and other related parties, to the extent they invest in a given fund, generally invest directly into the feeder funds. These feeder funds are typically limited partnerships or limited companies that hold direct or indirect interests in a master fund. The master fund, together with its subsidiaries, is the primary investment vehicle for its feeder funds. The Company generally collects its management fees and incentive income from the feeder funds or subsidiaries of the feeder funds ("intermediate funds"), and generally does not collect any management fees or incentive income directly from the master funds. However, the Company also organizes certain funds (e.g., its real estate funds and closed-end opportunistic credit funds) without the use of a master-feeder structure. These are typically organized as limited partnerships, in which the Company is the general partner and collects management fees and incentive income directly from these entities; however, in the case of the real estate funds, the Company collects management fees directly from those funds' investors. The Company generally directs the activities of its funds through its role as general partner or as the investment manager or CLO collateral manager with decision-making rights.

The consolidated financial statements include the accounts of the Registrant and entities in which it, directly or indirectly, is determined to have a controlling financial interest under the following set of guidelines:

- **Variable Interest Entities ("VIEs")**—The Company determines whether, if by design, an entity has any of the following characteristics: (i) equity investors who lack the characteristics of a controlling financial interest; (ii) the entity does not have sufficient equity at risk to finance its expected activities without additional subordinated financial support from other parties; or (iii) substantially all of the activities of the entity are performed on behalf of a party with disproportionately few voting rights. An entity with any one of these characteristics is a VIE. Partnerships, and similarly structured entities, will be considered as VIEs where a simple majority of third party

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

investors with equity at risk are not able to exercise substantive kick-out or participating rights over the general partner.

- ***Voting Interest Entities (“VOEs”)***—Where an entity does not have the characteristics of a VIE, it will be a VOE.

The determination of whether a fund is a VIE or a VOE is based on the facts and circumstances for each individual fund in accordance with the guidelines described below. Classification of such entities is reassessed where there is a substantive change in the governing documents or contractual arrangements of the entity, to the capital structure of the entity or in the activities of the entity. The Company continuously reassesses whether it should consolidate a VIE or VOE.

Prior to the Adoption of ASU 2015-02

Prior to the adoption of ASU 2015-02, the Company used two models for determining whether it was the primary beneficiary of a VIE depending on the nature and characteristics of the entity.

In the case of fund vehicles classified as VIEs that qualified for the deferral under ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds*, the primary beneficiary was the party that absorbed a majority of a VIEs’ expected losses or received a majority of the expected residual returns as a result of holding variable interests. The Company was identified as the primary beneficiary of a fund where the Company’s related party group absorbed a majority of the variability of the fund, and where the Company was determined to be most closely associated to the fund within that related party group.

In the case of the Company’s CLOs and a certain joint venture that were classified as VIEs and did not qualify for the deferral under ASU 2010-10, the primary beneficiary was the party that had both (i) the power to direct the activities of the entity that most significantly impact the entity’s economic performance; and (ii) the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. The Company was identified as the primary beneficiary of the CLOs it manages because it directed the investment activities of the CLOs and had the right to receive benefits from the CLOs that could potentially be significant as a result of its fee arrangements.

Finally, certain partnerships that were not determined to be VIEs in which the Company held a substantive equity investment and was determined to be the controlling general partner were classified as VOEs and consolidated by the Company because the limited partners did not have substantive rights to participate in the ongoing governance and operating activities of the partnership.

Upon the Adoption of ASU 2015-02

Where the Company holds a variable interest in an entity, it is required to determine whether it should consolidate the entity. Under ASU 2015-02, fee arrangements are no longer considered variable interests when they are commensurate with the level of effort required to provide services and include only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm’s length, and where the Company does not hold other interests in the entity that would absorb more than an insignificant amount of the variability of the entity.

Where the Company does not have a variable interest in the entity, it will not consolidate the entity. Where the Company has a variable interest, it is required to determine whether the entity will be considered as a VIE or VOE, the classification of which will determine the analysis that the Company is required to perform when determining whether it should consolidate the entity.

Funds that are VIEs

Funds that the Company has determined to be VIEs are generally VIEs because fund investors are deemed to lack the characteristics of a controlling financial interest or the entity does not have sufficient equity.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The party identified as the primary beneficiary of a VIE is required to consolidate the entity. The Company is the primary beneficiary of a VIE where it has a controlling financial interest in the entity, which is defined as (i) the power to direct the activities of the entity that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. Where the Company does not have a controlling financial interest, but is part of a related party group under common control that collectively has characteristics of a controlling financial interest, the Company may be required to determine which party within the related party group is more closely associated with the VIE and would therefore consolidate a VIE. This assessment would also be performed where power is shared within a related party group that collectively has characteristics of a controlling financial interest.

The types of funds that are VIEs and not consolidated are generally (i) master funds and intermediate fund vehicles for the Company's multi-strategy funds, as well as opportunistic credit, real estate and certain other fund vehicles, as third party investors in these entities have not been granted substantive removal rights, and (ii) CLOs, as they lack sufficient equity at risk to finance their expected activities without additional subordinated financial support from other parties. The Company does not consolidate VIEs where it does not have a controlling financial interest.

The types of funds that are VIEs consolidated by the Company are certain new funds that the Company has seeded and generally expects to deconsolidate when the fund has a certain level of additional third party capital.

Funds that are VOEs

Funds that are corporations, or similarly structured entities that are not VIEs, are consolidated by the Company where the Company has an equity investment of greater than 50% and has control over significant operating, financial and investing decisions of the entity. The Company will generally not consolidate partnerships, or similarly structured entities that are not VIEs, where a single investor or simple majority of third party investors with equity have the ability to exercise substantive kick-out or participating rights over the entity.

The types of funds that are VOEs and not consolidated by the Company are generally feeder funds of the Company's multi-strategy funds, as third party fund investors in these entities have been granted substantive removal rights.

The Company does not currently consolidate any funds that are VOEs.

Allocations of Och-Ziff Operating Group Earnings and Capital

The Company consolidates the Och-Ziff Operating Group. Earnings of the Och-Ziff Operating Group are allocated on a pro rata basis between the Och-Ziff Operating Group A Units, which interests are reflected within net income (loss) attributable to noncontrolling interests, and Och-Ziff Operating Group B Units, which interests are reflected within net income (loss) attributable to Och-Ziff Capital Management Group LLC, in the consolidated statements of comprehensive income (loss).

Paid-in capital of the Och-Ziff Operating Group is allocated pro rata between the Och-Ziff Operating Group A Units, which interest is reflected within noncontrolling interests, and Och-Ziff Operating Group B Units, which interest is reflected within the Company's paid-in capital, in the consolidated balance sheets. As a result, increases in the Och-Ziff Operating Group's paid-in capital resulting from the amortization of equity-based compensation and Reorganization expenses (described below) is allocated pro rata between noncontrolling interests and the Company's paid-in capital.

See Note 4 for additional information regarding the Company's interest in the Och-Ziff Operating Group.

Noncontrolling Interests and Appropriated Retained Earnings (Deficit)

The Och-Ziff Operating Group A Units represent interests in the Och-Ziff Operating Group not held by the Company, and amounts attributable to these units are presented as noncontrolling interests in the consolidated balance sheets. The Company also consolidates certain funds in which it holds a controlling financial interest. Ownership interests in these consolidated funds

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

that are not held by the Company are also presented as noncontrolling interests in the consolidated balance sheets. Profits and losses attributable to these interests are reflected within net income (loss) attributable to noncontrolling interests in the consolidated statements of comprehensive income (loss). Investors in the consolidated funds presented within noncontrolling interests are generally not able to redeem their interests until the fund liquidates or is otherwise wound-up.

Additionally, the Company consolidates certain opportunistic credit funds that it manages, wherein investors are able to redeem their interests after an initial lock-up period of up to three years. Amounts relating to these fund investors' interests in these funds are presented as redeemable noncontrolling interests in the consolidated balance sheets. Profits and losses attributable to these interests are presented as net income (loss) attributable to redeemable noncontrolling interests in the consolidated statements of comprehensive income (loss).

The Company also consolidated the CLOs it managed prior to adoption of ASU 2015-02. The Company elected the fair value option for the notes and loans payable of the consolidated CLOs upon the initial consolidation of each CLO. The recognition of the initial difference between the fair value of assets and liabilities of consolidated CLOs was treated as an adjustment to appropriated retained earnings (deficit). Net changes in the fair value of consolidated CLO assets and liabilities and related income and expenses were allocated to noncontrolling interests in the statements of comprehensive income (loss). These allocations are then reclassified from noncontrolling interests to appropriated retained earnings (deficit) in the consolidated balance sheets. Such amounts were reclassified, as the holders of each CLO's beneficial interests, as opposed to the Company, received the benefits or absorbed the losses of the CLO's assets.

See Note 4 for additional information regarding noncontrolling interests.

Preferred Units

The Company reports Preferred Units as redeemable noncontrolling interests, outside of permanent equity on the Company's consolidated balance sheet, as the redemption of the Preferred Units may be effected in a manner not solely in control of the Company. The Company recorded the proceeds from the issuance and sale net of transactions costs. As the redemption of the Preferred Units is outside of the control of the Company, the carrying value of the Preferred Units is their current full redemption value. The change in redemption value was treated as a reduction of the common equity holders' interests in the Och-Ziff Operating Group. The pro rata share of the change in redemption value that was allocable to the Registrant was treated as a reduction of net income (loss) attributable to Class A Shareholder when calculating earnings (loss) per Class A Share. See Note 11 for additional information on the Preferred Units.

Revenue Recognition Policies

The Company has two principal sources of revenues: management fees and incentive income. These revenues are derived from the Company's agreements with the Och-Ziff funds. 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. Certain investments held by employees, executive managing directors and other related parties in the Och-Ziff funds are not subject to management fees or incentive income charges. See Note 16 for additional information regarding these waived fees.

Management Fees

Management fees for the Company's multi-strategy funds typically range from 1.00% to 2.25% 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 0.50% 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 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

Incentive Income

The Company earns incentive income based on the cumulative performance of the Och-Ziff funds over a commitment period. Incentive income is typically equal to 20% of the net realized and unrealized profits 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 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 as further discussed below.

For funds that the Company consolidates, incentive income is recognized by allocating a portion of the net income of the consolidated funds to the Company rather than to the fund investors (noncontrolling interests). Incentive income allocated to the Company is not reflected as incentive income in its consolidated revenues, as these amounts are eliminated in consolidation. The allocation of incentive income to the Company is based on the contractual terms of the relevant fund agreements. As a result, the Company may recognize earnings related to its incentive income allocation from the consolidated funds prior to the end of their respective commitment periods, and therefore the Company may recognize earnings that are subject to clawback to the extent a consolidated fund generates subsequent losses. For Economic Income (as defined in Note 18) purposes, the Company defers recognition of these earnings until they are no longer subject to clawback.

For funds that the Company does not consolidate, incentive income is recognized at the end of the applicable commitment period when the amounts are contractually payable, or "crystallized," and when no longer subject to clawback. Additionally, 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 net profits 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. Tax distributions are amounts distributed to the Company to cover tax liabilities related to incentive income that has been accrued at the fund level but will not be recognized by the Company until the end of the relevant commitment period (if at all). These tax distributions are not subject to clawback once distributed to the Company.

Approximately \$17.0 billion, or 45%, of the Company's assets under management as of December 31, 2016 were subject to initial commitment periods of three years or longer. These assets under management include assets subject to three-year commitment periods in the OZ Master Fund and other multi-strategy funds, as well as assets in the Company's opportunistic credit funds, CLOs, real estate funds and certain other funds. Incentive income related to these assets is based on the cumulative investment performance over a specified commitment period (in the case of CLOs, based on the excess cash flows available to the holders of the subordinated notes), and, to the extent a fund is not consolidated, is not earned until it is no longer subject to repayment to the respective fund. The Company's ability to earn incentive income on these longer-term assets is also subject to

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

hurdle rates whereby the Company does not earn any 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, resulting in a potential recognition to the Company of a full 20% of the net profits attributable to investors in these assets.

Other Revenues

Other revenues consist primarily of interest income and revenue related to non-business use of the corporate aircraft by certain executive managing directors. Interest income is recognized on an effective yield basis. Revenues earned from non-business use of the corporate aircraft are recognized on an accrual basis based on actual flight hours. See Note 16 for additional information regarding non-business use of the corporate aircraft.

Compensation and Benefits

Compensation and benefits is comprised of salaries, benefits, payroll taxes, and discretionary and guaranteed cash bonus expense. The Company generally recognizes 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. These cash bonuses are based on total annual revenues, which are significantly influenced by the amount of incentive income the Company earns in the year. Annual discretionary cash bonuses are generally determined and expensed in the fourth quarter each year.

Och-Ziff Operating Group D Units

The Och-Ziff Operating 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 Och-Ziff Operating 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 Och-Ziff Operating Group A Units and dividends on the Company’s Class A Shares are paid.

An Och-Ziff Operating Group D Unit converts into an Och-Ziff Operating Group A Unit to the extent the Company determines that it has become economically equivalent to an Och-Ziff Operating Group A Unit, at which point it is considered a grant of equity-based compensation for GAAP purposes. Upon the conversion of Och-Ziff Operating Group D Units into Och-Ziff Operating 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.

Profit Sharing Arrangements

The Company also has 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 the Company and a portion paid to the participant as investments held by these funds are realized. The Company defers the recognition of any portion of this incentive income to the extent it is subject to clawback and relates to a fund that is not consolidated. See “— Incentive Income” above. To the extent that the payments to the employees or executive managing directors are probable and reasonably estimable, the Company accrues these payments as compensation expense for GAAP purposes, which may occur prior to the recognition of the related incentive income.

Equity-Based Compensation

Compensation expense related to equity-classified share-based payments is based on the grant-date fair value and recognized on a straight-line basis over the requisite service period for awards with both cliff vesting and graded vesting. For liability-classified share-based payments, the Company recognizes compensation expense over the requisite service period adjusted to the fair value as of the end of the reporting period.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Compensation expense includes an estimated forfeiture assumption, which is based on current and historical information and is reviewed periodically for any necessary adjustments. A change in the forfeiture assumption is recognized in the period in which such change occurs. See Note 12 for additional information on the Company's equity-based compensation plans.

Reorganization Expenses

Prior to the Company's 2007 initial public offering ("IPO"), the Company completed a reorganization of its business (the "Reorganization"). As part of the Reorganization, Mr. Och's equity interests, the other executive managing directors' non-equity interests and the Ziffs' profit sharing interests were reclassified as Och-Ziff Operating Group A Units. The reclassification was accounted for as share-based payments. These units, which were amortized through Reorganization expenses in the consolidated statements of comprehensive income (loss), generally vested over the five-year period beginning on the date of the IPO, with a small number of reallocated units vesting through 2015.

Income Taxes

Deferred income tax assets and liabilities resulting from temporary differences between the GAAP and tax bases of assets and liabilities are measured at the balance sheet date using enacted income tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. The Company offsets deferred income tax assets and liabilities for presentation in its consolidated balance sheets when such assets and liabilities are within the same legal entity and related to the same taxing jurisdiction.

The realization of deferred income tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. A valuation allowance is established when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether a valuation allowance should be established, as well as the amount of such allowance.

Future events such as changes in tax legislation could have an impact on the provision for income taxes and the effective income tax rate. Any such changes could significantly affect the amounts reported in the consolidated financial statements in the year these changes occur.

The Company records interest and penalties related to income taxes within income taxes in the consolidated statements of comprehensive income (loss).

Cash and Cash Equivalents

The Company considers highly-rated liquid investments that have an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents are recorded at amortized cost plus accrued interest. As of December 31, 2016, substantially all of the Company's cash and cash equivalents were held with one major financial institution, which exposes the Company to a certain degree of credit risk concentration. The Company records cash and cash equivalents of consolidated Och-Ziff funds held at prime brokers within other assets of Och-Ziff funds in the consolidated balance sheets.

Fixed Assets

Fixed assets consist of corporate aircraft, leasehold improvements, computer hardware and software, furniture, fixtures and office equipment. Fixed assets are recorded at cost less accumulated depreciation and amortization within other assets, net in the consolidated balance sheets. The Company evaluates fixed assets for impairment whenever events or changes in circumstances indicate that an asset's carrying value may not be fully recovered. Depreciation and amortization of fixed assets are calculated using the straight-line method over the following depreciable lives: 15 years for corporate aircraft, the shorter of the related lease term or expected useful life for leasehold improvements and 3 years to 7 years for all other fixed assets. If a fixed asset is

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

reclassified as held for sale, it is carried at the lower of existing carrying value or its estimated net selling price, and the asset is no longer depreciated.

Investments in Och-Ziff Funds

The Company has investments into certain funds it manages. These investments are recorded within other assets, net in the consolidated balance sheet.

The Company's equity investments into funds are accounted for under the equity method of accounting, and the Company recognizes its share of earnings within net gains on investments in Och-Ziff funds and joint ventures in the consolidated statements of comprehensive income (loss).

The Company elected to measure its investments in notes issued by a CLO managed by the Company 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 Och-Ziff funds and joint ventures in the consolidated statements of comprehensive income (loss). The Company accrues interest income on its investments in CLO using the effective interest method, and includes this income within other revenues in the consolidated statements of comprehensive income (loss).

Goodwill

Goodwill is included within other assets, net in the Company's consolidated balance sheets and relates to the Company's 2007 acquisition of an additional 25% interest in its domestic real estate operations from one of its joint venture partners. The Company tests goodwill for impairment on an annual basis or more frequently if events or circumstances justify conducting an interim test.

Investments in United States Government Obligations

The Company invests in United States government obligations to manage excess liquidity. These investments are carried at fair value, as the Company has elected the fair value option in order to include any gains or losses within consolidated net income (loss). These investments are recorded in the consolidated balance sheet within cash and cash equivalents for investments with an original maturity from the date of purchase of three months or less, and within other assets, net for those longer than three months. Changes in fair value of these investments were immaterial for the years ended December 31, 2016, 2015 and 2014.

Transfers of Financial Assets

In 2016, the Company sold certain loans to a CLO managed by the Company. The Company holds 5% of each class of notes issued by the CLO in order to comply with certain regulatory requirements.

The transfer of these loans qualified as a sale upon meeting the following requirements: (i) the transferred assets are legally isolated from the Company; (ii) holder of the notes issued by the CLO (other than the Company) must have the right to sell or pledge their notes; and (iii) the Company may not maintain effective control over the transferred loans. The Company continues to recognize acquired loans until the requirements are met. Any loans for which the requirements above have not been met are classified as held for sale and measured at the lower of cost or fair value less cost to sell. The Company recognized the loans as of the end of the reporting period, along with an obligation to deliver those loans to the CLO under a forward sale agreement entered into between the Company and the CLO. The obligation to deliver those loans subject to the forward sale agreement is measured at fair value. See Note 6 for additional information.

Policies of Consolidated Och-Ziff Funds

The Och-Ziff funds are considered investment companies for GAAP purposes. Pursuant to specialized accounting guidance for investment companies and the retention of that guidance in the Company's consolidated financial statements, the

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

investments held by the consolidated Och-Ziff funds' are reflected in the consolidated financial statements at their estimated fair values.

Income of Consolidated Och-Ziff Funds

Income of consolidated Och-Ziff funds consists of interest income, dividend income and other miscellaneous items. Interest income is recorded on an accrual basis. The consolidated Och-Ziff funds may place debt obligations, including bank debt and other participation interests, on non-accrual status and, when necessary, reduce current interest income by charging off any interest receivable when collection of all or a portion of such accrued interest has become doubtful. The balance of non-accrual investments as of December 31, 2016 and 2015, and the impact of such investments for the years ended December 31, 2016, 2015 and 2014, were not material. Dividend income is recorded on the ex-dividend date, net of withholding taxes, if applicable.

Expenses of Consolidated Och-Ziff Funds

Expenses of consolidated Och-Ziff funds consist of interest expense and other miscellaneous expenses. Interest expense is recorded on an accrual basis.

Investments, at Fair Value

Investments, at fair value include the consolidated Och-Ziff funds' investments in securities, investment companies and other investments. Securities transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments of the Och-Ziff funds are determined on a specific identification basis and are included within net gains (losses) of consolidated Och-Ziff funds in the consolidated statements of comprehensive income (loss). Premiums and discounts are amortized and accreted, respectively, to income of consolidated Och-Ziff funds in the consolidated statements of comprehensive income (loss).

The fair value of investments held by the consolidated Och-Ziff funds is based on observable market prices when available. Such values are generally based on the last reported sales price as of the reporting date. In the absence of readily ascertainable market values, the determination of the fair value of investments held by the consolidated Och-Ziff funds may require significant judgment or estimation. For information regarding the valuation of these assets, see Note 5.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase ("repurchase agreements") by the consolidated Och-Ziff funds are accounted for as collateralized financing transactions. The funds provide securities to counterparties to collateralize amounts borrowed under repurchase agreements on terms that permit the counterparties to repledge or resell the securities to others. Cash borrowed by the funds is included within securities sold under agreements to repurchase in the consolidated balance sheets. Interest expense incurred on these transactions is included within expenses of consolidated Och-Ziff funds in the consolidated statements of comprehensive income (loss).

Notes and Loans Payable of Consolidated CLOs, at Fair Value

The Company has elected the fair value option for the senior secured and subordinated notes and loans payable of consolidated CLOs. The Company has elected the fair value option for the notes and loans payable of the consolidated CLOs to mitigate accounting mismatches between the carrying values of the assets and liabilities of the CLOs. Changes in fair value of the notes and loans are included within net gains (losses) of consolidated Och-Ziff funds in the consolidated statements of comprehensive income (loss).

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Recently Adopted Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02. ASU 2015-02 significantly changes the consolidation analysis required under GAAP. The impact of adoption and the Company's revised consolidation policies incorporating the changes made by ASU 2015-02 are presented above and the impact of adoption is presented in Note 3.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The requirements of ASU 2015-03 were effective for the Company beginning in first quarter of 2016. The Company reclassified \$5.8 million of debt issuance costs in its December 31, 2015 balance sheet from other assets to debt obligations upon the adoption of ASU 2015-03.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The requirements of ASU 2015-07 were effective for the Company beginning in the first quarter of 2016, and are applied retrospectively. The impact of ASU 2015-07 was limited to disclosure of the level in the fair value hierarchy of investments held by the Company that are measured using net asset value per share during the periods presented.

None of the other changes to GAAP that went into effect in the year ended December 31, 2016 has had a material effect on the Company's consolidated financial statements.

Future Adoption of Accounting Pronouncements

In May 2014, the FASB issued 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. 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 requirements of ASU 2014-09 are effective for the Company beginning in the first quarter of 2018. Entities are permitted to apply the guidance in ASU 2014-09 using one of the following methods: (i) full retrospective application to each prior period presented, or (ii) modified retrospective application with a cumulative effect adjustment to opening retained earnings in the annual reporting period that includes that date of initial application. The Company has evaluated the impact of ASU 2014-09 on its primary revenue sources and does not expect the adoption of the standard to have a material effect on its revenues. The Company is still in the process of evaluating the effect that ASU 2014-09 may have on certain costs associated with business development and deal origination. The Company expects to adopt ASU 2014-09 using a modified retrospective application approach.

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 17 for details related to our existing operating lease obligations as of December 31, 2016.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 will change how companies account for certain aspects of share-based payments to employees. Specifically, the ASU will have the following effect: (i) requires recognition of all income tax effects of awards within consolidated net income when the awards vest or are settled (currently, excess tax benefits are recorded to paid-in capital, while tax deficiencies are recorded in consolidated net

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

income to the extent in excess of previously recorded excess tax benefits); (ii) increases the amount companies can withhold to satisfy the employer's statutory income tax withholding obligation and still qualify for the exception to liability classification; and (iii) will require companies to elect whether to account for forfeitures of share-based payments by either recognizing forfeitures as they occur or by estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. Entities are required to apply amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures using a modified retrospective transition method, while amendments related to the recognition of excess tax benefits and tax deficiencies in the statement of comprehensive income should be applied prospectively. The requirements of ASU 2016-09 are effective for the Company beginning in the first quarter of 2017. The Company does not expect the impact of adoption to be material; however, the change to the treatment of excess tax benefits and deficiencies could be material in future periods.

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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. DECONSOLIDATION OF CERTAIN OCH-ZIFF FUNDS

As a result of the adoption of ASU 2015-02 on January 1, 2016, the Company is no longer required to consolidate the majority of the previously consolidated Och-Ziff funds. The table below presents the non-cash adjustments to the Company's balance sheet as a result of the deconsolidation upon the adoption of ASU 2015-02.

	(dollars in thousands)
Assets	
Income and fees receivable	\$ 8,715
Due from related parties	1,896
Deferred income tax assets	16,153
Other assets, net	3,331
<i>Assets of consolidated Och-Ziff funds:</i>	
Investments, at fair value	(9,036,433)
Other assets of Och-Ziff funds	(344,719)
Total Assets	\$ (9,351,057)
Liabilities and Shareholders' Equity	
Liabilities	
Other liabilities	\$ 81,972
<i>Liabilities of consolidated Och-Ziff funds:</i>	
Notes and loans payable of consolidated CLOs, at fair value	(7,077,679)
Securities sold under agreements to repurchase	(190,751)
Other liabilities of Och-Ziff funds	(47,392)
Total Liabilities	(7,233,850)
Redeemable Noncontrolling Interests	(813,116)
Shareholders' Equity	
Appropriated retained deficit	59,663
Accumulated deficit	(42,626)
Shareholders' deficit attributable to Class A Shareholders	17,037
Shareholders' equity attributable to noncontrolling interests	(1,321,128)
Total Shareholders' Equity	(1,304,091)
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity	\$ (9,351,057)

4. NONCONTROLLING INTERESTS

Noncontrolling interests represent ownership interests in the Company's subsidiaries held by parties other than the Company, and primarily relate to the Och-Ziff Operating Group A Units held by the Company's executive managing directors and fund investors' interests in the consolidated Och-Ziff funds.

Net (loss) income attributable to the Och-Ziff Operating Group A Units is driven by the (losses) earnings of the Och-Ziff Operating Group. Net income attributable to fund investors' interests in consolidated Och-Ziff funds is driven by the

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

earnings of those funds, including the net difference in the fair value of assets and liabilities of consolidated CLOs that are subsequently reclassified to appropriated retained earnings on the consolidated balance sheets.

As discussed in Notes 2 and 3, the Company deconsolidated the majority of the previously consolidated Och-Ziff funds, including all of the CLOs. As a result, noncontrolling interests and redeemable noncontrolling interests related to fund investors presented in the tables below decreased substantially from the prior year.

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

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Och-Ziff Operating Group A Units	\$ (195,087)	\$ 136,449	\$ 365,793
Consolidated Och-Ziff funds	262	54,357	169,142
Other	1,068	371	353
	<u>\$ (193,757)</u>	<u>\$ 191,177</u>	<u>\$ 535,288</u>

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

	December 31, 2016		December 31, 2015	
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$	166,521	\$	429,312
Consolidated Och-Ziff funds		—		1,224,996
Other		5,408		2,090
	<u>\$</u>	<u>171,929</u>	<u>\$</u>	<u>1,656,398</u>

The Preferred Units and fund investors' interests in certain consolidated Och-Ziff 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:

	Year Ended December 31,				
	2016			2015	2014
	Consolidated Funds	Preferred Units	Total	Consolidated Funds	Consolidated Funds
	(dollars in thousands)				
Beginning balance	\$ 832,284	\$ —	\$ 832,284	\$ 545,771	\$ 76,583
Deconsolidation of Och-Ziff funds on adoption of ASU 2015-02 (Note 3)	(813,116)	—	(813,116)	—	—
Change in redemption value of Preferred Units	—	16,043	16,043	—	—
Preferred Units issuance, net of issuance costs	—	246,457	246,457	—	—
Capital contributions	3	—	3	338,437	435,609
Capital distributions	—	—	—	(2,320)	—
Comprehensive income (loss)	2,450	—	2,450	(49,604)	33,579
Ending Balance	<u>\$ 21,621</u>	<u>\$ 262,500</u>	<u>\$ 284,121</u>	<u>\$ 832,284</u>	<u>\$ 545,771</u>

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Och-Ziff Operating Group Ownership

The Company's interest in the Och-Ziff Operating Group increased to 38.3% as of December 31, 2016, from 37.8% as of December 31, 2015. Changes in the Company's interest in the Och-Ziff Operating Group have historically been, and in the future may be, driven by the following: (i) the exchange of Och-Ziff Operating Group A 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, primarily related to the settlement of RSUs; (iii) the forfeiture of Och-Ziff Operating Group A Units and related Class B Shares by a departing executive managing director; and (iv) the repurchase of Class A Shares and Och-Ziff Operating Group A Units. The Company's interest in the Och-Ziff Operating Group is expected to continue to increase over time as additional Class A Shares are issued upon the exchange of Och-Ziff Operating Group A Units and settlement of RSUs. These increases will be offset upon any conversion by an executive managing director of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units, at which time an equal number of Class B Shares is also issued to the executive managing director.

Och-Ziff Operating Group A Unit Repurchase

On October 28, 2015, the Company repurchased approximately 4.6 million vested Och-Ziff Operating Group A Units from former executive managing directors at a price per unit of \$5.00, for an aggregate of \$22.8 million. These units were canceled upon their repurchase, and an equal number of Class B Shares were also canceled. As a result, the Company recorded a decrease to paid-in capital and shareholders' equity attributable to non-controlling interests. The repurchase resulted in \$2.3 million of additional deferred income tax assets derived from goodwill recognized for tax purposes that is expected to be subsequently amortized and result in future taxable deductions and cash savings to the Company. This increase in deferred income tax assets was recorded as an increase to paid-in capital in connection with the repurchase.

5. 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

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, investments in affiliated credit funds, as well as the notes and loans payable of consolidated CLOs.

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

As a result of the adoption of ASU 2015-02, the Company no longer consolidates the majority of the previously consolidated Och-Ziff funds as of January 1, 2016. In addition, as a result of the adoption of ASU 2015-07, the Company no longer categorizes within the fair value hierarchy investments held at net asset value. Prior year amounts were restated upon the adoption of ASU 2015-07. See Notes 2 and 3 for additional information regarding these ASUs.

The following table summarizes assets measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2016:

	As of December 31, 2016			
	Level I	Level II	Level III	Total
(dollars in thousands)				
Investments of Och-Ziff, Excluding the Consolidated Funds				
United States government obligations included within cash and cash equivalents	\$ 139,974	\$ —	\$ —	\$ 139,974
Investments in CLO included within other assets, net ⁽¹⁾	—	—	21,341	21,341
	<u>\$ 139,974</u>	<u>\$ —</u>	<u>\$ 21,341</u>	<u>\$ 161,315</u>
Investments of Consolidated Och-Ziff Funds				
Bank debt	\$ —	\$ 19,534	\$ 18,127	\$ 37,661
Liabilities of Och-Ziff, Excluding the Consolidated Funds				
Obligation to deliver loans subject to forward sale agreement included within other liabilities	\$ —	\$ 8,204	\$ —	\$ 8,204

(1) As of December 31, 2016, investments in CLO had contractual principal amounts of \$21.3 million outstanding.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The following table summarizes assets and liabilities measured at fair value on a recurring basis within the fair value hierarchy as of December 31, 2015:

	As of December 31, 2015			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Investments of Och-Ziff, Excluding the Consolidated Funds				
United States government obligations included within other assets, net	\$ 18,501	\$ —	\$ —	\$ 18,501
Investments of Consolidated Och-Ziff Funds				
Bank debt	\$ —	\$ 4,809,367	\$ 1,998,423	\$ 6,807,790
Real estate investments	—	—	719,957	719,957
Residential mortgage-backed securities	—	—	323,571	323,571
Collateralized debt obligations	—	—	83,759	83,759
Energy and natural resources limited partnerships	2,100	—	70,604	72,704
Commercial real estate debt	—	—	18,295	18,295
Corporate bonds	—	75,149	—	75,149
United States government obligations	40,672	—	—	40,672
Asset-backed securities	—	—	23,739	23,739
Commercial mortgage-backed securities	—	—	13,803	13,803
Other investments	316	9	1,938	2,263
Financial Assets, at Fair Value	\$ 43,088	\$ 4,884,525	\$ 3,254,089	\$ 8,181,702
Investments held at net asset value				890,231
Total Investments of Consolidated Funds, at Fair Value				\$ 9,071,933
Liabilities of Consolidated Och-Ziff Funds				
Senior secured notes and loans payable of consolidated CLOs	\$ —	\$ —	\$ 6,636,838	\$ 6,636,838
Subordinated notes payable of consolidated CLOs	—	—	440,841	440,841
Notes and loans payable of consolidated CLOs, at fair value	—	—	7,077,679	7,077,679
Other liabilities, included within other liabilities of Och-Ziff funds	2,527	298	—	2,825
Financial Liabilities, at Fair Value	\$ 2,527	\$ 298	\$ 7,077,679	\$ 7,080,504

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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. Amounts related to the initial consolidation of the Company's CLOs and other funds are included within investment purchases. Amounts related to the deconsolidation of the Company's funds upon the adoption of ASU 2015-02 are included within investment sales. Gains and losses of Och-Ziff, excluding the consolidated funds are recorded within net gains on investments in Och-Ziff funds and joint ventures in the consolidated statements of comprehensive income (loss), and gains and losses of the consolidated Och-Ziff funds are recorded within net gains (losses) of consolidated Och-Ziff funds.

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs, which are presented separately further below) for the year ended December 31, 2016:

	December 31, 2015	Transfers In	Transfers Out	Investment Purchases / Issuances	Investment Sales / Settlements	Derivative Settlements	Gains (Losses)	December 31, 2016
(dollars in thousands)								
Investments of Och-Ziff, Excluding the Consolidated Funds								
Investments in CLO	\$ —	\$ —	\$ —	\$ 21,462	\$ —	\$ —	\$ (121)	\$ 21,341
Investments of Consolidated Och-Ziff Funds								
Bank debt	\$ 1,998,423	\$ —	\$ —	\$ 80,317	\$ (2,061,719)	\$ —	\$ 1,106	\$ 18,127
Real estate investments	719,957	—	—	—	(719,957)	—	—	—
Residential mortgage-backed securities	323,571	—	—	—	(323,571)	—	—	—
Collateralized debt obligations	83,759	—	—	—	(83,759)	—	—	—
Energy and natural resources limited partnerships	70,604	—	—	—	(70,604)	—	—	—
Commercial real estate debt	18,295	—	—	—	(18,295)	—	—	—
Corporate bonds	—	—	—	—	—	—	—	—
Asset-backed securities	23,739	—	—	—	(23,739)	—	—	—
Commercial mortgage-backed securities	13,803	—	—	—	(13,803)	—	—	—
Other investments (including derivatives, net)	1,938	—	—	—	(1,938)	—	—	—
Total, Investments of Consolidated Och-Ziff Funds	\$ 3,254,089	\$ —	\$ —	\$ 80,317	\$ (3,317,385)	\$ —	\$ 1,106	\$ 18,127

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs, which are presented separately further below) for the year ended December 31, 2015:

	December 31, 2014	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	December 31, 2015
(dollars in thousands)								
Investments of Consolidated Och-Ziff Funds								
Bank debt	\$ 2,224,032	\$ 306,942	\$ (573,217)	\$ 1,326,259	\$ (1,212,902)	\$ —	\$ (72,691)	\$ 1,998,423
Real estate investments	645,916	—	—	200,972	(221,282)	—	94,351	719,957
Residential mortgage-backed securities	462,927	—	—	47,855	(153,240)	—	(33,971)	323,571
Collateralized debt obligations	173,746	—	—	9,796	(119,352)	—	19,569	83,759
Energy and natural resources limited partnerships	65,909	—	—	18,946	(4,234)	—	(10,017)	70,604
Commercial real estate debt	29,815	—	—	33,891	(48,849)	—	3,438	18,295
Corporate bonds	656	—	—	16,006	(13,223)	—	(3,439)	—
Asset-backed securities	21,368	—	—	9,046	(5,594)	—	(1,081)	23,739
Commercial mortgage-backed securities	3,287	—	—	15,537	(4,522)	—	(499)	13,803
Other investments (including derivatives, net)	2,144	—	(29)	55	(233)	(958)	959	1,938
Total, Investments of Consolidated Och-Ziff Funds	\$ 3,629,800	\$ 306,942	\$ (573,246)	\$ 1,678,363	\$ (1,783,431)	\$ (958)	\$ (3,381)	\$ 3,254,089

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 broker quotes or independent pricing services.

There were no transfers between Levels I and II during the periods presented above.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The table below summarizes the net change in unrealized gains and losses on the Company's Level III assets and liabilities (excluding notes and loans payable of consolidated CLOs) held as of the reporting date. These gains and losses are included within net gains of consolidated Och-Ziff funds in the Company's consolidated statements of comprehensive income (loss):

	Year Ended December 31,	
	2016	2015
	(dollars in thousands)	
Investments of Och-Ziff, Excluding the Consolidated Funds		
Investments in CLO	\$ (121)	\$ —
Investments of Consolidated Och-Ziff Funds		
Bank debt	\$ 425	\$ (74,321)
Real estate investments	—	42,743
Residential mortgage-backed securities	—	(38,186)
Collateralized debt obligations	—	(5,785)
Energy and natural resources limited partnerships	—	(10,016)
Commercial real estate debt	—	935
Corporate bonds	—	(253)
Asset-backed securities	—	(829)
Commercial mortgage-backed securities	—	(871)
Other investments (including derivatives, net)	—	16
Total, Investments of Consolidated Och-Ziff Funds	\$ 425	\$ (86,567)

The table below summarizes the changes in the notes and loans payable of consolidated CLOs for the year ended December 31, 2015. As a result of the adoption of ASU 2015-02, the Company no longer consolidates any of its CLOs as of January 1, 2016. Accordingly, no tables are presented for the year ended December 31, 2016.

For the year ended December 31, 2015, the Company recorded net unrealized gains of \$222.9 million for notes and loans payable of consolidated CLOs still outstanding as of December 31, 2015. Amounts related to the initial consolidation of the Company's CLOs are included within issuances in the table below.

	December 31, 2014	Issuances	Settlements	Net Losses (Gains) of Consolidated Och-Ziff Funds	December 31, 2015
	(dollars in thousands)				
Senior secured notes and loans payable of consolidated CLOs	\$ 4,784,134	\$ 2,356,349	\$ (459,000)	\$ (44,645)	\$ 6,636,838
Subordinated notes payable of consolidated CLOs	443,277	173,868	—	(176,304)	440,841
	\$ 5,227,411	\$ 2,530,217	\$ (459,000)	\$ (220,949)	\$ 7,077,679

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

Investments in CLO; Bank Debt; Residential and Commercial Mortgage-Backed Securities; Collateralized Debt Obligations; Commercial Real Estate Debt; Corporate Bonds; Asset-Backed Securities; Notes and Loans Payable of Consolidated CLOs

The fair value of investments in CLO, bank debt, residential and commercial mortgage-backed securities, collateralized debt obligations, commercial real estate debt, corporate bonds, asset-backed securities, and notes and loans payable of

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

consolidated CLOs that do not have readily ascertainable fair values is generally determined using broker quotes or independent pricing services. For month-end valuations, the Company generally receives one to four broker quotes for each security, depending on the type of security being valued. These broker quotes are generally non-binding or indicative in nature. The Company verifies that these broker quotes are reflective of fair value as defined in GAAP generally 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. Historically, the Company has only adjusted a small number of broker quotes when used in determining final valuations for securities as a result of these procedures.

To the extent broker quotes are not available or deemed unreliable, the methods and procedures to value these investments may include, but are not limited to: obtaining and using other additional broker quotes deemed reliable; using independent pricing services; 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 these investments that is an indication of their value; obtaining information provided by third parties; reviewing the amounts invested in these investments; and evaluating financial information provided by the management of these investments. Market data is used to the extent that it is observable and considered reliable.

The significant unobservable inputs used in the fair value measurement of the investments listed above that are not valued using broker quotes or independent pricing services are discount rates and yields. Significant increases (decreases) in the discount rates and yields in isolation would be expected to result in a significantly lower (higher) fair value measurement.

Real Estate Investments

Real estate investments are generally structured as equity, preferred equity, mezzanine debt, and participating debt in entities domiciled primarily in the United States and include investments in lodging, gaming, multifamily properties, retail, healthcare, distressed residential, senior housing, golf, parking, office buildings and land. The fair values of these investments are generally based upon discounting the expected cash flows from the investment or a cash flow multiple. In reaching the determination of fair value for investments, the Company considers many factors including, but not limited to: the operating cash flows and financial performance of the real estate investments relative to budgets or projections; property types; geographic locations; the physical condition of the asset; prevailing market capitalization rates; prevailing market discount rates; general economic conditions; economic conditions specific to the market in which the assets are located; the prevailing interest rate environment; the prevailing state of the debt markets; comparable public company trading multiples; independent third-party appraisals; available pricing data on comparable properties in the specific market in which the asset is located; expected exit timing and strategy; and any specific rights or terms associated with the investment.

The significant unobservable inputs used in the fair value measurement of the Company's real estate investments are discount rates, cash flow growth rates, capitalization rates, the price per square foot, the absorption percentage per year and exit multiples. Significant increases (decreases) in the discount rates and capitalization rates in isolation would be expected to result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in the cash flow growth rates, the price per square foot, the absorption rate per year and exit multiples in isolation would be expected to result in a significantly higher (lower) fair value measurement. A change in the assumption used for price per square foot is generally accompanied by a directionally inverse change in the absorption percentage per year.

Energy and Natural Resources Limited Partnerships

The fair value of energy and natural resources limited partnerships is generally determined using discounted cash flows when assets are producing oil or gas, or when it is reasonably certain that an asset will be capable of producing oil or gas, or using recent financing for certain investments. Acreage with proven undeveloped, probable or possible reserves are valued using prevailing prices of comparable properties, and may include adjustments for other assets or liabilities such as seismic data, equipment, and cash held by the investee. Certain natural resource assets may also be valued using scenario analyses and sum of the parts analyses.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The significant unobservable inputs used in the fair value measurement of the Company's energy and natural resources limited partnerships that are not measured using net asset value are discount rates, EBITDA multiples, price per acre and production multiples. Significant increases (decreases) in the discount rates in isolation would be expected to result in a lower (higher) fair value measurement. Significant increases (decreases) in the EBITDA multiples, price per acre, price per square foot and production multiples in isolation would be expected to result in a significantly higher (lower) fair value measurement.

Information about Significant Inputs Used in Fair Value Measurements Categorized within Level III

The table below summarizes information about the significant unobservable inputs used in determining the fair value of Level III assets and liabilities as of December 31, 2016.

Type of Investment or Liability	Fair Value at December 31, 2016 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Och-Ziff, Excluding Consolidated Funds				
Investments in CLO	\$ 21,341	Independent pricing services	n/a	
Consolidated Och-Ziff Funds				
Bank debt	\$ 18,127	Independent pricing services	n/a	

The table below summarizes information about the significant unobservable inputs used in determining the fair value of Level III assets and liabilities as of December 31, 2015.

Type of Investment or Liability	Fair Value at December 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Consolidated Och-Ziff Funds				
Bank debt	\$ 1,949,227	Independent pricing services	n/a	
		Yield analysis	Yield	14% to 23% (16%)
Real estate investments	\$ 719,957	Discounted cash flow	Discount rate	10% to 30% (19%)
			Cash flow growth rate	-24% to 36% (3%)
			Capitalization rate	6% to 12% (8%)
			Price per square foot	\$50 to \$187 (\$159)
			Absorption rate per year	0% to 27% (8%)
			Exit multiple	5.9x to 18.9x (10.3x)
Residential mortgage-backed securities	\$ 312,839	Broker quotes	n/a	
		Independent pricing services	n/a	
Collateralized debt obligations	\$ 83,759	Broker quotes	n/a	
Energy and natural resources limited partnerships	\$ 49,326	Scenario analysis	Discount rate	10% to 25% (19%)
			EBITDA multiple	5.5x to 7.3x (6.4x)
			Price per acre	\$1,750
			Production multiple (price per thousand cubic feet equivalent per day)	\$6,750 to \$9,167 (\$7,662)
	18,672	Sum of the parts	Discount rate	15%
			Price per acre	\$437
	2,606	Discounted cash flow	Discount rate	15%

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Type of Investment or Liability	Fair Value at December 31, 2015 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Commercial real estate debt	\$ 7,010	Yield analysis	Yield	13% to 18% (16%)
	\$ 11,285	Discounted cash flow	Discount rate	15%
Asset-backed securities	\$ 22,428	Broker quotes	n/a	
	1,311	Discounted cash flow	Discount rate	14%
Commercial mortgaged-backed securities	\$ 13,803	Broker quotes	n/a	
Senior secured notes and loans payable of consolidated CLOs	\$ 6,636,838	Broker quotes	n/a	
Subordinated notes payable of consolidated CLOs	\$ 440,841	Broker quotes	n/a	

Valuation Process for Fair Value Measurements Categorized within Level III

The Company has established an internal control infrastructure over the valuation of financial instruments that includes ongoing oversight by its Financial Controls Group and Valuation Committee, as well as periodic audits by the Company's Internal Audit Group. These 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 valuation 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, but are not limited to 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; and variance reports that compare the values of investments to independent pricing services. The Valuation Committee is comprised of non-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 Financial Controls Group. The Financial Controls Group's other responsibilities include, but are not limited to the following: overseeing the collection and evaluation of counterparty prices, broker-dealer quotations, exchange prices and information provided by third party pricing vendors; performing back testing by comparing prices observed in executed transactions to valuations and/or valuations provided by independent pricing service providers on a bi-weekly and 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 Financial 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.

When pricing or verification sources cannot be obtained from external sources or if external prices are deemed unreliable, additional procedures are performed by the Financial 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.

Investment professionals and members of the Financial 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Fair Value of Other Financial Instruments

Management estimates that the carrying value of the Company's other financial instruments approximated their fair values as of December 31, 2016, with exception of the Company's debt obligations which had a fair value of \$550.1 million and a carrying value of \$577.1 million. The Senior Notes are categorized as Level II and the Revolving Credit Facility, the Aircraft Loan and the CLO Investment Loan are each categorized as Level III within the fair value hierarchy. The fair value of the Senior Notes were determined using recent market transactions, the Revolving Credit Facility and the Aircraft Loan were valued using independent pricing services, and the CLO Investment Loan was based on recent transactions.

Assets Measured at Fair Value on a Non-Recurring Basis

As of December 31, 2016, the Company measured its aircraft held for sale at fair value, less cost to sell, and loans held for sale at fair value. See Note 8 for the carrying values of these assets. These non-recurring fair value measurements would be categorized in the fair value hierarchy as Level III for the aircraft and Level II for loans held for sale. The fair value for the aircraft was determined using recent market sales for comparable aircraft and bids received, and the Company assesses whether recent bids are supportive of transactions seen in recent sales for similar aircraft. The fair value for the loans held for sale was determined using independent pricing services. The Company held no assets measured at fair value on a non-recurring basis as of December 31, 2015.

6. TRANSFERS OF FINANCIAL ASSETS

Investment in CLO and Related Transactions

In the fourth quarter of 2016, the Company purchased \$27.4 million of Euro-denominated loans in the open market and contemporaneously entered into a forward sale agreement to sell the loans at cost to a European CLO managed by the Company. As of December 31, 2016, \$17.9 million of the loans subject to the forward sale agreement were sold and derecognized by the Company. As of December 31, 2016, loans of \$8.2 million had not yet been sold to the CLO, and therefore remained on the Company's consolidated balance sheet. These loans are carried at the lower of cost or fair value. The Company sold the derecognized loans to the CLO at cost, and therefore there were no realized gains or losses recognized on the sale. The Company expects to sell the remainder of the unsettled loans in the short term.

Pursuant to the forward sale agreement, the Company recorded an unsettled trade receivable from the CLO of \$10.4 million, as of December 31, 2016. The difference between the unsettled receivable and the \$8.2 million of loans that have not been sold relates to the sale of loans from which cash has not yet been received.

In addition, the Company purchased \$21.5 million of senior secured and subordinated notes issued by the CLO to which it sold the loans discussed above. These investments in the CLO represent retained interests to the Company. The Company concluded that the sale accounting criteria were met for the purchase of the retained interest. The retained interest is reported as investment in CLO, at fair value, within other assets, net in the Company's consolidated balance sheet (see Note 8).

The Company uses independent pricing services for its investments in the CLO, 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 investment. See above for the amount purchased and the fair value as of December 31, 2016, both measurements are considered Level II within the fair value hierarchy. The Company had not yet received any cash flows on its investment in the CLO nor any management fees from the CLO as of December 31, 2016.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Securities Sold Under Agreements to Repurchase

In the ordinary course of business, certain consolidated funds have entered into certain repurchase agreements that are subject to master agreements that provide for payment netting and that, in the case of a default or similar event with respect to the counterparty to the master agreement, provide for netting across transactions. Generally, upon a counterparty default, the fund can terminate all transactions under the master agreement and set off amounts it owes across all transactions under a particular master agreement against collateral it has received under such master agreement; provided, however, that in the case of certain defaults, the fund may only be able to terminate and set off solely with respect to the transactions affected by the default. Generally, the funds party to these agreements manage cash and securities collateral on a counterparty basis as permitted under each master agreement.

The table below presents the repurchase agreements that are set off, if any, as well as securities transferred to counterparties related to those repurchase agreements. No other material financial instruments were subject to master netting agreements or other similar agreements. As a result of the adoption of ASU 2015-02, the Company no longer consolidates the majority of the previously consolidated Och-Ziff funds as of January 1, 2016. The deconsolidation resulted in no amounts being reportable as of December 31, 2016.

Securities Sold Under Agreements to Repurchase	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities in the Consolidated Balance Sheet	Securities Transferred	Net Amount
(dollars in thousands)					
As of December 31, 2015	\$ 190,751	\$ —	\$ 190,751	\$ 190,751	\$ —

The amount presented for securities transferred in the table above has been capped so that the net amount presented will not be reduced below zero. The fair value of securities transferred to counterparties under repurchase agreements totaled \$297.7 million as of December 31, 2015, and are included in investments, at fair value in the consolidated balance sheets.

The table below presents the remaining contractual maturity of the repurchase agreements by class of collateral pledged.

Securities Sold Under Agreements to Repurchase	As of December 31, 2015				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
(dollars in thousands)					
Collateralized debt obligations	\$ —	\$ 9,004	\$ 20,418	\$ —	\$ 29,422
Residential mortgage-backed securities	—	87,719	6,605	59,242	153,566
United States government obligations	7,763	—	—	—	7,763
Total	\$ 7,763	\$ 96,723	\$ 27,023	\$ 59,242	\$ 190,751

The repurchase agreements entered into by certain of the consolidated funds may result in credit exposure to those funds in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The funds minimize the credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral where appropriate.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

7. VARIABLE INTEREST ENTITIES

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

The table below presents the assets and liabilities of VIEs consolidated by the Company. As a result of the adoption of ASU 2015-02 on January 1, 2016, the Company is no longer required to consolidate the majority of the Och-Ziff funds that were previously consolidated, including all CLOs.

	December 31, 2016	December 31, 2015	
	Other Funds	CLOs	Other Funds
	(dollars in thousands)		
Assets			
<i>Assets of consolidated Och-Ziff funds:</i>			
Investments, at fair value	\$ 37,661	\$ 6,750,296	\$ 1,199,633
Other assets of Och-Ziff funds	17,544	308,917	19,647
Total Assets	\$ 55,205	\$ 7,059,213	\$ 1,219,280
Liabilities			
<i>Liabilities of consolidated Och-Ziff funds:</i>			
Notes and loans payable of consolidated CLOs, at fair value	\$ —	\$ 7,077,679	\$ —
Securities sold under agreements to repurchase	—	—	3,583
Other liabilities of Och-Ziff funds	15,197	34,197	9,840
Total Liabilities	\$ 15,197	\$ 7,111,876	\$ 13,423

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 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 17. 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The table below presents the net assets of VIEs in which the Company has variable interests as of December 31, 2016 and 2015, respectively.

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
Net assets of unconsolidated VIEs in which the Company has a variable interest ⁽¹⁾	\$ 4,069,617	\$ 32,878,450
<i>Maximum risk of loss as a result of the Company's involvement with VIEs:</i>		
Unearned revenues	96,409	314
Income and fees receivable	13,074	66,215
Investments in Och-Ziff funds	35,868	4,924
Maximum Exposure to Loss	\$ 145,351	\$ 71,453

- (1) The significant decline in the net assets period over period was due to the adoption of ASU 2015-02 on January 1, 2016. Prior to adoption of ASU 2015-02, management fees and incentive income were considered to be direct variable interests in the Company's funds. Subsequent to the adoption of ASU 2015-02, these fees were no longer considered to be variable interests when they were deemed customary and commensurate with the services being performed, and therefore only entities in which the Company holds other direct variable interests are included in the disclosure.

8. OTHER ASSETS, NET

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

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
<i>Fixed Assets:</i>		
Corporate aircraft held for sale	\$ 56,251	\$ —
Corporate aircraft	—	85,840
Leasehold improvements	54,414	51,814
Computer hardware and software	40,093	33,485
Furniture, fixtures and equipment	8,919	8,765
Accumulated depreciation and amortization	(49,890)	(60,899)
Fixed assets, net	109,787	119,005
<i>Investments in Och-Ziff funds:</i>		
Investments in CLO, at fair value	21,341	—
Investments in other funds, equity method	16,453	6,019
Investments in Och-Ziff funds	37,794	6,019
Goodwill	22,691	22,691
Prepaid expenses	12,753	21,472
Trades receivable for loans subject to forward sale agreement	10,391	—
Loans held for sale	8,204	—
United States government obligations, at fair value	—	18,501
Other	6,344	5,287
Total Other Assets, Net	\$ 207,964	\$ 192,975

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

In 2016, the Company reclassified its corporate aircraft as held for sale, as it expects to complete the sale of the aircraft in the following 12 months. As a result, the Company recorded a loss of \$6.4 million to reduce the carrying value to the current estimated fair value less expected selling costs. The Company reported the loss within general, administrative and other expenses in the Company's consolidated statements of comprehensive income (loss).

9. OTHER LIABILITIES

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

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
Unearned incentive income ⁽¹⁾	\$ 96,079	\$ —
Accrued expenses	30,728	54,692
Deferred rent credit	15,046	17,436
Loan trades payable	10,391	—
Obligation to deliver loans subject to forward sale agreement, at fair value	8,204	—
Other	14,546	11,685
Total Other Liabilities	\$ 174,994	\$ 83,813

- (1) The significant increase in unearned incentive income was the result of the deconsolidation of the majority of the Company's funds upon the adoption of ASU 2015-02 on January 1, 2016. Prior to the deconsolidation, incentive income from the consolidated funds was eliminated in consolidation.

10. DEBT OBLIGATIONS

As of December 31, 2016, the Company's outstanding indebtedness was primarily comprised of senior notes (the "Senior Notes"), borrowings under a revolving credit facility (the "Revolving Credit Facility"), a secured term loan to finance the purchase of a corporate aircraft (the "Aircraft Loan") and a secured loan to finance the purchase of the Company's investments in a CLO ("CLO Investment Loan"). The table below presents scheduled principal payments on the Company's debt obligations for each of the next five years.

	Scheduled Payments
	(dollars in thousands)
2017	\$ 3,153
2018	\$ 3,041
2019	\$ 523,140
2020	\$ 3,243
2021	\$ 3,349

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Senior Notes

On November 20, 2014, the Company issued \$400.0 million of Senior Notes due November 20, 2019, unless earlier redeemed or repurchased. The Senior Notes were issued at a price of 99.417% of the aggregate principal amount and bear interest at a rate per annum of 4.50% payable semiannually in arrears. The Senior Notes are unsecured and unsubordinated obligations issued by a subsidiary of the Company, Och-Ziff Finance Co. LLC (“Och-Ziff Finance”), and are fully and unconditionally guaranteed, jointly and severally, on an unsecured and unsubordinated basis by OZ Management, OZ Advisors I and OZ Advisors II (collectively, the “Senior Notes Guarantors”).

The Senior Notes may be redeemed from time to time at the Company’s option, in whole or in part, at a redemption price equal to the greater of 100% of the principal amount to be redeemed and a make-whole redemption price (as defined in the Senior Notes indenture), in either case, plus any accrued and unpaid interest. If a change of control repurchase event occurs, the Company will be required to offer to repurchase the Senior Notes at a price equal to 101% of the aggregate principal amount, plus any accrued and unpaid interest.

The Senior Notes do not have any financial maintenance covenants. However, the Senior Notes include certain covenants, including limitations on Och-Ziff Finance’s and, as applicable, the Senior Notes Guarantors’ ability to, subject to exceptions, incur indebtedness secured by liens on voting stock or profit participating equity interests of their respective subsidiaries or merge, consolidate or sell, transfer or lease all or substantially all assets. The Senior Notes also provide for customary events of default, bankruptcy, insolvency or reorganization that may cause the Senior Notes to become immediately due and payable, plus any accrued and unpaid interest.

Revolving Credit Facility

On November 20, 2014, the Company entered into a \$150.0 million, 5-year unsecured Revolving Credit Facility, which was subsequently amended on December 29, 2015, the proceeds of which may be used for working capital, general corporate purposes or other liquidity needs. The facility matures on November 20, 2019. The borrower under the Revolving Credit Facility is OZ Management and the facility is guaranteed by OZ Advisors I, OZ Advisors II and Och-Ziff Finance. The Company is able to increase the maximum amount of credit available under the facility to \$225.0 million if certain conditions are satisfied. As of December 31, 2016, the Company had \$120.0 million of outstanding borrowings under the facility.

The Company is subject to a fee of 0.10% to 0.25% per annum on undrawn commitments during the term of the Revolving Credit Facility. Outstanding borrowings will bear interest at a rate per annum of LIBOR plus 1.00% to 2.00%, or a base rate plus 0% to 1.00%. The commitment fees and the spreads over LIBOR or the base rate are based on OZ Management’s credit rating throughout the term of the facility. The interest rate on the drawn portion of the commitment as of December 31, 2016 was LIBOR plus 1.75%, and the undrawn commitment fee was 0.20%.

The Revolving Credit Facility includes two financial maintenance covenants. The first covenant prohibits total fee-paying assets under management as of the last day of any fiscal quarter to be less than \$22.0 billion for two successive quarters. The second covenant prohibits the economic income leverage ratio (as defined in the Revolving Credit Facility) as of the last day of any fiscal quarter from exceeding 4.0 to 1.0. The Revolving Credit Facility allows a limited right to cure an event of default resulting from noncompliance with the economic income leverage ratio test with an equity contribution made to the borrower, OZ Management. Such cure right may not be used more than two times in any four-quarter period or more than three times during the term of the facility.

The Revolving Credit Facility includes provisions that restrict or limit, among other things, the ability of Och-Ziff Operating Group from:

- Incurring certain additional indebtedness or issuing certain equity interest.
- Creating liens.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

- Paying dividends or making certain other payments when there is a default or event of default under the Revolving Credit Facility.
- Merging, consolidating, selling or otherwise disposing of its assets.
- Engaging in certain transactions with shareholders or affiliates.
- Engaging in a substantially different line of business.
- Amending its organizational documents in a manner materially adverse to the lenders.

The Revolving Credit Facility permits the Och-Ziff Operating Group to incur, among other things, up to \$150.0 million of indebtedness, up to an additional \$200.0 million of indebtedness for financing of investments in CLOs in order to comply with risk retention regulatory requirements, and additional indebtedness so long as, after giving effect to the incurrence of such indebtedness, it is in compliance with an economic income leverage ratio of 4.0 to 1.0 and no default or event of default has occurred and is continuing. The facility also permits the Och-Ziff Operating Group to create liens to, among other things, secure indebtedness related to financing of CLO risk retention investments, as well as other indebtedness and obligations of up to \$50.0 million.

Aircraft Loan

On February 14, 2014, the Company entered into the Aircraft Loan to finance installment payments towards the purchase of a new corporate aircraft that was delivered to the Company in February 2015. The Aircraft Loan is guaranteed by OZ Management, OZ Advisors I and OZ Advisors II. As of December 31, 2016, \$47.1 million was outstanding under the Aircraft Loan.

Outstanding borrowings bear interest at a rate of 3.22% per annum, and the balance is payable in equal monthly installments of principal and interest over the term of the facility beginning on the aircraft delivery date, with a balloon payment of \$30.8 million due upon maturity on February 4, 2022. There are no financial covenants associated with the Aircraft Loan. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.

CLO Investment Loan

On November 28, 2016, the Company entered into a \$16.0 million loan to finance 75% of its investment in the CLO (see Note 6). The CLO Investment Loan is collateralized by the notes of the CLO held by the Company and is subject to an interest rate of EURIBOR plus 2.23%. In general, the Company will make interest and principal payments on the CLO Investment Loan at such time interest payments are received on its investment in the CLO. The Company will make principal payments on the CLO Investment Loan to the extent principal payments are received on its investment in the CLO. Any remaining unpaid principal balance is due on December 15, 2023. The CLO Investment Loan is subject to customary events of default and covenants and includes terms that require the Company's continued involvement with the CLO. As of December 31, 2016, \$16.0 million was outstanding under the CLO Investment Loan.

Notes and Loans Payable of Consolidated CLOs

Prior to the adoption of ASU 2015-02 on January 1, 2016, the Company consolidated the CLOs it manages. As a result, the senior and subordinated notes and loans issued by the CLOs were included in the Company's consolidated balance sheet as of December 31, 2015. Notes and loans payable of the consolidated CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral generally consists of corporate loans, corporate bonds and other securities. As of December 31, 2015, the fair value of the CLO assets was \$7.1 billion.

The Company elected to carry these notes and loans payable at fair value in its consolidated balance sheet to mitigate the accounting mismatch between the carrying values of the assets and liabilities of the consolidated CLOs prior to deconsolidation. The Company recorded net gains of \$220.9 million for the year ended December 31, 2015. These net gains are included within

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

net gains (losses) of consolidated Och-Ziff funds in the statements of comprehensive income (loss). The majority of these changes relate to changes in instrument specific credit risk, as the majority of these are floating-rate instruments.

The table below presents information related to the CLO notes and loans outstanding as of December 31, 2015. The subordinated notes have no stated interest rate, and are entitled to any excess cash flows after contractual payments are made to the senior secured notes and loans. As a result of the adoption of ASU 2015-02 referenced above, there were no notes or loans payable of consolidated CLOs as of December 31, 2016.

	As of December 31, 2015			
	Borrowings Outstanding	Fair Value	Weighted-Average Interest Rate	Weighted-Average Maturity in Years
	(dollars in thousands)			
Senior secured notes and loans payable of consolidated CLOs	\$ 6,810,350	\$ 6,636,838	2.45%	10.5
Subordinated notes payable of consolidated CLOs	688,578	440,841	N/A	10.5
Total Notes and Loans Payable of Consolidated CLOs	\$ 7,498,928	\$ 7,077,679		

11. PREFERRED UNITS

Pursuant to a securities purchase agreement, dated September 29, 2016 (the “Purchase Agreement”), certain of the Company’s executive managing directors, including Daniel S. Och (the “EMD Purchasers”), agreed to purchase up to a total of 400,000 Preferred Units for an aggregate amount of up to \$400.0 million. On October 5, 2016, the Company completed a \$250.0 million issuance and sale of 250,000 Preferred Units. An additional \$150.0 million issuance and sale of 150,000 Preferred Units was completed on January 23, 2017.

The Company used the proceeds from the Preferred Units issued in October 2016, as well as cash on hand, to pay the \$412.1 million in penalties and disgorgement related to the settlements with the SEC and the DOJ discussed in Note 17. The Company expects to use the proceeds from the second closing of the Preferred Units in January 2017 for working capital and general corporate purposes.

Distributions on the Preferred Units are payable on the liquidation preference amount and on a cumulative basis at an initial distribution rate of 0% per annum until February 19, 2020 (the “Step-up Date”), after which the distribution rate will increase in stages thereafter to a maximum of 10% per annum on and after the eighth anniversary of the Step-up Date. 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, the Och-Ziff Operating Group entities may not declare or pay distributions on or repurchase any of their equity securities that rank equal with or junior to the Preferred Units.

Following the occurrence of a change of control event, the Och-Ziff Operating Group entities will redeem the Preferred Units at a redemption price equal to the liquidation preference plus all accumulated but unpaid distributions (collectively, the “liquidation value”). For so long as the Och-Ziff Operating Group entities do not redeem all of the outstanding Preferred Units, the distribution rate will increase by 7% per annum, beginning on the 31st day following such change in control. The Och-Ziff Operating Group entities will not be required to effect such redemption until the earlier of (i) 91 days after the maturity date of the Revolving Credit Facility and (ii) the payment in full of all loans and other obligations and the termination of all commitments thereunder.

The Och-Ziff Operating Group entities may, at their option, redeem the Preferred Units at a price equal to: (i) 105% of the liquidation value until the day immediately prior to the Step-up Date; (ii) 103% of the liquidation value thereafter until the day immediately prior to the first anniversary of the Step-up Date; (iii) 101% of the liquidation value thereafter until the day immediately prior to the second anniversary of the Step-up Date; and (iv) thereafter at a price equal to the liquidation value. In addition, from and after March 31, 2020, if the amounts that were distributed to partners of the Och-Ziff Operating Group

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

entities in respect of their equity interests in the Och-Ziff Operating Group entities (other than amounts distributed in respect of tax distributions or certain other distributions) or utilized for repurchase of units by such entities (or which were available but not used for such purposes) for the immediately preceding fiscal year were in excess of \$100 million in the aggregate, then an amount equal to 20% of such excess shall be utilized to redeem Preferred Units on a pro rata basis for an amount equal to the liquidation value.

Furthermore, if the average closing price of the Company's Class A Shares exceeds \$15.00 per share for the previous 20 trading days, the Och-Ziff Operating Group entities have agreed to use their reasonable best efforts to redeem all of the outstanding Preferred Units as promptly as practicable. If such event occurs prior to February 19, 2020, the Company has agreed to use its reasonable best efforts to obtain consents from its lenders in order to redeem the Preferred Units as promptly as practicable.

Although the Preferred Units do not have voting rights, the consent of the holders' committee, which initially consists of Daniel S. Och as sole member, is required to effect (i) any amendment to or waiver of the terms of the Preferred Units or (ii) any amendment to the limited partnership agreement of an Och-Ziff Operating Group entity that would have an adverse effect on any holder of the Preferred Units. Under the terms of the Preferred Units, each Och-Ziff Operating Group entity is prohibited from issuing any equity securities (or any debt or other securities convertible into equity securities of such entity) that rank equally with, or senior to, the Preferred Units, without the prior written consent of the holders' committee.

As of December 31, 2016, the Company had 250,000 Preferred Units issued and outstanding.

12. EQUITY-BASED COMPENSATION EXPENSES

The Company grants equity-based compensation in the form of RSUs, Och-Ziff Operating Group A 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:

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Expense recorded within compensation and benefits	\$ 75,217	\$ 112,639	\$ 114,727
Corresponding tax benefit	\$ 3,116	\$ 9,032	\$ 13,163

Restricted Share Units (RSUs)

An RSU 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, upon completion of the requisite service period. All of the RSUs granted to date accrue dividend equivalents equal to the dividend amounts paid on the Company's Class A Shares. To date, these dividend equivalents have been awarded in the form of additional RSUs that also accrue additional dividend equivalents. As a result, dividend equivalents declared on equity-classified RSUs are recorded similar to a stock dividend, resulting in (i) increases in the Company's accumulated deficit and the accumulated deficit component of noncontrolling interests on the same pro rata basis as earnings of the Och-Ziff Operating Group are allocated and (ii) increases in the Company's paid-in capital and the paid-in capital component of noncontrolling interests on the same pro rata basis. No compensation expense is recognized related to these dividend equivalents. Delivery of dividend equivalents on outstanding RSUs is contingent upon the vesting of the underlying RSUs, and therefore a forfeiture provision has been included in the accrual of such dividend equivalents.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Fair value of RSUs settled in Class A Shares	\$ 12,675	\$ 42,118	\$ 58,313
Fair value of RSUs settled in cash	\$ —	\$ 6,074	\$ 10,393
Fair value of RSUs withheld to satisfy tax withholding obligations	\$ 7,960	\$ 15,865	\$ 26,093
Number of RSUs withheld to satisfy tax withholding obligations	2,228,562	2,064,106	2,166,762

The following table presents activity related to the Company's unvested RSUs for the year ended December 31, 2016:

	Equity-Classified Awards		Liability-Classified Awards	
	Unvested RSUs	Weighted-Average Grant-Date Fair Value	Unvested RSUs	Weighted-Average Grant-Date Fair Value
Beginning of Year	9,389,756	\$ 10.92	535,756	\$ 12.26
Granted	8,854,202	\$ 4.36	—	\$ —
Vested	(5,952,026)	\$ 8.74	—	\$ —
Canceled or forfeited	(1,459,955)	\$ 10.64	—	\$ —
Modified to equity award	535,756	\$ 12.26	(535,756)	\$ 12.26
End of Year	11,367,733	\$ 7.05	—	\$ —

The weighted-average grant-date fair value of equity-classified RSUs granted was \$4.36, \$10.33 and \$13.15 for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, total unrecognized compensation expense related to equity-classified RSUs was approximately \$67.0 million with a weighted-average amortization period of 2.6 years.

In 2016, as a result of the FCPA settlements (see Note 17), 535,756 of RSUs that were classified as liability awards in 2015 were reclassified to equity awards, as the restrictions on certain executive managing directors' ability to sell the resulting Class A Shares that would have been received upon vesting were no longer present, and therefore the Company no longer intended to settle those awards in cash. The Company accounted for this modification as a grant of an equity award in settlement of a liability, resulting in no incremental expense being recorded.

Och-Ziff Operating Group A Units

The Company recognizes compensation expense for Och-Ziff Operating Group A Units equal to the market value of the Company's Class A Shares at the date of grant, less a 5% discount for transfer restrictions that remain in place after vesting. The following table presents the activity related to unvested Och-Ziff Operating Group A Units granted to executive managing directors that are being amortized through compensation and benefits for the year ended December 31, 2016:

	Unvested Och-Ziff Operating Group A Units	Weighted-Average Grant-Date Fair Value
Beginning of Year	12,655,197	\$ 9.96
Granted	10,063	\$ 4.12
Vested	(2,755,572)	\$ 10.28
Canceled or forfeited	(10,444)	\$ 10.80
End of Year	9,899,244	\$ 9.86

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The weighted-average grant-date fair value of Och-Ziff Operating Group A Units granted subsequent to the IPO was \$4.12, \$11.69 and \$9.99 for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, total unrecognized compensation expense related to these units totaled \$83.2 million with a weighted-average amortization period of 5.6 years.

13. INCOME TAXES

The Registrant and each of the Och-Ziff Operating Group entities 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 income taxes in the United States and in foreign jurisdictions.

The following table presents the components of the Company's provision for income taxes:

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Current:			
Federal income taxes	\$ 19	\$ (151)	\$ 892
State and local income taxes	4,885	13,241	13,872
Foreign income taxes	3,746	3,374	13,223
	<u>8,650</u>	<u>16,464</u>	<u>27,987</u>
Deferred:			
Federal income taxes	7,760	40,510	50,345
State and local income taxes	(6,131)	73,898	60,176
Foreign income taxes	607	1,352	540
	<u>2,236</u>	<u>115,760</u>	<u>111,061</u>
Total Provision for Income Taxes	<u>\$ 10,886</u>	<u>\$ 132,224</u>	<u>\$ 139,048</u>

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Deferred income tax assets and liabilities represent the tax effects of the temporary differences between the GAAP bases and tax bases of the Company's assets and liabilities. The following table presents the Company's deferred income tax assets and liabilities before the impact of offsetting deferred income tax assets and liabilities within the same legal entity and tax jurisdiction:

	December 31, 2016	December 31, 2015
	(dollars in thousands)	
Deferred Income Tax Assets:		
Tax goodwill	\$ 583,707	\$ 654,843
Net operating loss	86,935	54,831
Tax credit carryforwards	20,931	35,475
Investment in partnerships	11,173	—
Employee compensation	780	8,176
Other	227	—
	703,753	753,325
Valuation allowance	(7,955)	(22,412)
Total Deferred Income Tax Assets	\$ 695,798	\$ 730,913
Deferred Income Tax Liabilities:		
Investment in partnerships	—	10,196
Other	655	763
Total Deferred Income Tax Liabilities	\$ 655	\$ 10,959

The majority of the Company's deferred income tax assets relate to tax goodwill in the United States that arose in connection with the Company's IPO and concurrent private Class A Share offering in 2007 (collectively, the "2007 Offerings"), as well as subsequent exchanges of Och-Ziff Operating Group A Units for Class A Shares. These deferred income tax assets are derived from goodwill recognized for tax purposes that are subsequently amortized and result in future taxable deductions and cash savings to the Company. The Company entered into a tax receivable agreement to pay a portion of these tax savings to the Company's executive managing directors and the Ziffs. The tax goodwill amounts presented above include the increases that these tax receivable agreement payments will have on future tax goodwill. See Note 17 for additional information regarding the tax receivable agreement.

As of December 31, 2016, the Company had federal income tax credit carryforwards of approximately \$20.9 million, the majority of which will expire between 2017 and 2026. As of December 31, 2016, the Company had \$206.7 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2030 and 2036, and \$103.7 million for state and \$96.1 million for local income tax purposes that will expire between 2035 and 2036.

The Company has determined that it may not realize certain foreign income tax credits and foreign net operating losses within the limited carryforward period available. Accordingly, a valuation allowance for \$8.0 million and \$22.4 million as of December 31, 2016 and 2015, respectively, has been established for these items.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The following is a reconciliation of the statutory U.S. federal income tax rate to the Company's effective income tax rate:

	Year Ended December 31,		
	2016	2015	2014
Statutory U.S. federal income tax rate	35.00%	35.00%	35.00%
Income passed through to noncontrolling interests	-23.10%	-16.34%	-23.94%
Nondeductible fines and penalties	-12.78%	—%	—%
Income not subject to entity level tax	-3.01%	2.44%	-2.54%
State and local income taxes due to enacted change in tax laws	—%	23.14%	5.16%
Other state and local income taxes	0.56%	4.66%	2.96%
Changes in tax receivable agreement liability	—%	-6.94%	-1.77%
Foreign income taxes	-0.96%	1.24%	1.12%
Other, net	0.72%	0.94%	0.36%
Effective Income Tax Rate	-3.57%	44.14%	16.35%

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions, as well as foreign jurisdictions. The income tax years under examination vary by jurisdiction. In general, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years prior to 2013; however, certain subsidiaries are no longer subject to income tax examinations for years prior to 2012 for state and local and 2007 for foreign jurisdictions.

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. In 2014, the Company recorded a liability for unrecognized tax benefits of \$7.0 million. The Company did not accrue interest or penalties related to uncertain tax positions. There was no change to the liability in 2016 or 2015. As of December 31, 2016, the Company does not believe that there will be a significant change to the uncertain tax positions during the next 12 months. The amount of the Company's total unrecognized tax benefits that, if recognized, would affect its effective tax rate was \$4.5 million as of December 31, 2016.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

14. 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):

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Professional services	\$ 74,859	\$ 72,969	\$ 30,733
Recurring placement and related service fees	38,424	48,702	48,217
Occupancy and equipment	35,998	34,358	30,249
Information processing and communications	34,485	31,971	24,094
Insurance	15,333	16,719	16,170
Business development	13,440	15,707	11,982
Other expenses	21,828	19,565	11,738
	234,367	239,991	173,183
FCPA settlements expense (Note 17)	412,101	—	—
Changes in tax receivable agreement liability	1,663	(55,852)	(40,383)
Total General, Administrative and Other	\$ 648,131	\$ 184,139	\$ 132,800

15. (LOSS) EARNINGS PER CLASS A SHARE

Basic (loss) earnings per Class A Share is computed by dividing the net (loss) income attributable to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period. For the years ended December 31, 2016, 2015 and 2014 the Company included 1,144,614, 1,016,694 and 1,460,578 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 (loss) earnings per Class A Share.

The following tables present the computation of basic and diluted (loss) earnings per Class A Share:

Year Ended December 31, 2016	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	\$ (130,762)	182,670,173	\$ (0.72)	
<i>Effect of dilutive securities:</i>				
Och-Ziff Operating Group A Units	(219,109)	297,317,095		—
RSUs	—	—		14,343,302
Diluted	\$ (349,871)	479,987,268	\$ (0.73)	

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Year Ended December 31, 2015	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	\$ 25,740	177,935,977	\$ 0.14	
<i>Effect of dilutive securities:</i>				
Och-Ziff Operating Group A Units	—	—		301,064,047
RSUs	—	2,957,970		—
Diluted	\$ 25,740	180,893,947	\$ 0.14	

Year Ended December 31, 2014	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	\$ 142,445	172,843,926	\$ 0.82	
<i>Effect of dilutive securities:</i>				
Och-Ziff Operating Group A Units	—	—		301,884,116
RSUs	—	5,335,186		—
Diluted	\$ 142,445	178,179,112	\$ 0.80	

16. RELATED PARTY TRANSACTIONS

Due from Related Parties

Amounts due from related parties relate primarily to amounts due from the Och-Ziff 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 and the Ziffs under the tax receivable agreement, as discussed further in Note 17. The Company made payments under the tax receivable agreement to its executive managing directors and the Ziffs of \$53.5 million and \$46.0 million for the years ended December 31, 2015 and 2014. As discussed in Note 17, payments due under the tax receivable agreement in 2016 were waived.

Preferred Units

As discussed in Note 11, the Och-Ziff Operating Group entities issued and sold Preferred Units to EMD Purchasers. Pursuant to the Purchase Agreement, the Company agreed to reimburse Daniel S. Och and his related entities for their reasonable out-of-pocket legal fees and expenses incurred in connection with the negotiation and execution of the transactions contemplated thereby. These fees totaled \$537 thousand and were netted against the proceeds of the sale of Preferred Units.

Notes and Loans Payable of Consolidated CLOs

As of December 31, 2015, \$100.4 million of the notes and loans payable of consolidated CLOs was held by certain funds managed by the Company.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Management Fees and Incentive Income Earned from the Och-Ziff Funds

The Company earns substantially all of its management fees and incentive income from the Och-Ziff 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 December 31, 2016 and 2015, approximately \$2.7 billion and \$2.6 billion respectively, of the Company's assets under management represented investments by the Company, its executive managing directors, employees and certain other related parties in the Company's funds. As of December 31, 2016 and 2015, approximately 51% and 49%, respectively, 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:

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
<i>Fees charged on investments held by related parties:</i>			
Management fees	\$ 18,243	\$ 20,297	\$ 22,497
Incentive income	\$ 12,266	\$ 3,819	\$ 18,044

Corporate Aircraft

The Company's corporate aircraft are used primarily for business purposes. From time to time, certain executive managing directors use the aircraft for personal use. For the years ended December 31, 2016, 2015 and 2014 the Company charged \$744 thousand, \$1.2 million and \$673 thousand, respectively, for personal use of the aircraft by certain executive managing directors.

17. COMMITMENTS AND CONTINGENCIES

Tax Receivable Agreement

The purchase of Och-Ziff Operating 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 Och-Ziff Operating Group A 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 Och-Ziff 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 within general, administrative and other expenses 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 Och-Ziff Operating Group. As a result, the Company expects to pay to the remaining executive managing directors and the Ziffs

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 Och-Ziff 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 December 31, 2016, the estimated future payment under the tax receivable agreement was \$520.8 million, which is recorded in due to related parties on the consolidated balance sheets.

In September 2016, the Company amended the tax receivable agreement to provide that no amounts will be due or payable under the agreement with respect to the 2015 and 2016 taxable years. As a result, the Company released approximately \$72.6 million of previously accrued tax receivable agreement liability, which reduced its deferred income tax assets by \$33.4 million. The net impact of \$39.2 million was recognized as an increase to shareholders' equity.

The table below presents the maximum amounts that would be payable under the tax receivable agreement assuming that the Company will have sufficient taxable income each year to fully realize the expected tax savings. In light of the numerous factors affecting the Company's obligation to make such payments, the timing and amounts of any such actual payments may differ materially from those presented in the table.

	Potential Payments Under Tax Receivable Agreement (dollars in thousands)
2017	\$ —
2018	44,274
2019	44,745
2020	44,977
2021	46,389
Thereafter	340,446
Total Payments	\$ 520,831

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 and Houston expiring on various dates through 2024. The Company also has operating leases for other locations, as well as operating leases on computer hardware. 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

The following table presents minimum operating lease payments as of December 31, 2016:

	Operating Leases (dollars in thousands)
2017	\$ 26,056
2018	20,714
2019	18,039
2020	20,786
2021	20,599
Thereafter	143,999
Total Payments	\$ 250,193

For the years ended December 31, 2016, 2015 and 2014, the Company recorded rent expense on a straight-line basis of \$22.5 million, \$22.1 million, and \$21.7 million, respectively, within general, administrative and other expenses in the consolidated statements of comprehensive income.

In January 2017, the Company terminated one of its leases included in the table above. The total minimum payments related to this lease that are included in the table above totaled \$11.9 million.

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 September 29, 2016, the Company reached settlements with the DOJ and the SEC, resolving their investigations into the Company's former private investment business in Africa and a 2007 investment by the Libyan Investment Authority in certain of the Company's funds. As part of the settlements, the Company entered into a Deferred Prosecution Agreement with the DOJ, and a Company subsidiary, OZ Africa Management GP, LLC ("OZ Africa"), agreed to plead guilty to one count of conspiracy to violate the FCPA. The Company also agreed to settle an administrative proceeding with the SEC involving violations of the FCPA and the Advisers Act. Pursuant to the settlement agreements with the DOJ and the SEC, the Company agreed to pay \$412.1 million in penalties and disgorgement and to implement enhanced internal accounting controls and policies, to separate the chief compliance officer from other officer positions, and to engage an independent compliance monitor for three years, subject to early termination or extension.

On September 2, 2015, a shareholder derivative action was filed in the Supreme Court of the State of New York, County of New York (*Kumari v. Och, et al.*). The complaint purported to assert derivative claims on behalf of the Company against all of the Company's directors and alleged breaches of fiduciary duty and other misconduct with respect to matters that were under investigation by the SEC and the DOJ. On October 23, 2015, the Company's directors moved to dismiss the complaint. On September 23, 2016, the court entered an order dismissing the case in its entirety. The plaintiff's time to appeal the court's decision on the motion to dismiss has lapsed.

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

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, and Mr. Cohen filed his opposition on January 21, 2017. On January 11, 2017, the Company and Messrs. Och and Frank filed motions to dismiss those portions of the second amended complaint that seek to revive dismissed claims or assert new claims against them.

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.

Unearned Incentive Income

The Company receives incentive income distributions from certain real estate funds that are subject to clawback in the event of future losses in the respective fund. The Company recognizes this incentive income when it is no longer subject to clawback. These clawback contingencies will be resolved as remaining investments in the respective funds are realized, the timing of which is uncertain. The following table summarizes the activity in the Company's unearned incentive income liability as of December 31, 2016:

	Unearned Incentive Income (dollars in thousands)
Balance as of December 31, 2015	\$ —
Deconsolidation of Och-Ziff funds on adoption of ASU 2015-02 (Note 3)	81,972
Incentive income collected but subject to clawback	22,557
Incentive income recognized	(8,450)
Balance as of December 31, 2016	\$ 96,079

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 \$18.9 million to certain funds it manages. It expects to fund these commitments over the next five years. In addition, certain of the Company's executive managing directors, collectively, have capital commitments to funds managed by the Company of up to \$39.9 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.

The Company has committed to fund a portion of the operating budget for a joint venture. The amount of the commitment will be equal to the actual costs incurred in the projects the joint venture manages, as determined by the Company and its joint venture partner. The joint venture periodically returns substantially all of the cash that is contributed by the Company, as expenses incurred by the joint venture are generally reimbursed by the projects it manages.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Other Contingencies

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.

18. SEGMENT INFORMATION

The Company's operating segments are the Och-Ziff Funds segment and the Company's real estate business. The Och-Ziff Funds, 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 Och-Ziff Operating Group. Management reviews operating performance at the Och-Ziff Operating Group level, where the Company's operations are performed, prior to making any income allocations.
- Reorganization expenses related to the IPO, equity-based compensation expenses, depreciation and amortization expenses, and gains and losses on assets held for sale, as management does not consider these non-cash expenses 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 Och-Ziff funds, as management does not consider these to be reflective of operating performance.
- Amounts related to the consolidated Och-Ziff 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. The Company also defers the recognition of incentive income allocations from the consolidated Och-Ziff funds until all clawback contingencies are resolved, consistent with the revenue recognition policy for the funds the Company does not consolidate.

In addition, expenses related to compensation and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant commitment period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund.

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 Och-Ziff funds.

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

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

interest income and all interest expense related to outstanding indebtedness is allocated to the Och-Ziff Funds segment. The Company's FCPA settlements were all allocated to the Och-Ziff Funds segment.

Och-Ziff Funds Segment Results

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
<i>Och-Ziff Funds Segment:</i>			
Economic Income Revenues	\$ 700,950	\$ 821,905	\$ 1,163,180
Economic Income	\$ (217,006)	\$ 340,157	\$ 708,000

Reconciliation of Och-Ziff Funds Segment Revenues to Consolidated Revenues

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Total consolidated revenues	\$ 770,364	\$ 1,322,981	\$ 1,542,284
Adjustment to management fees ⁽¹⁾	(38,424)	(1,804)	(14,938)
Adjustment to incentive income ⁽²⁾	—	17,449	51,909
Other Operations revenues	(29,228)	(27,371)	(46,576)
Income of consolidated Och-Ziff funds	(1,762)	(489,350)	(369,499)
Economic Income Revenues - Och-Ziff Funds Segment	\$ 700,950	\$ 821,905	\$ 1,163,180

(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 Och-Ziff funds is also removed.

(2) Adjustment to exclude the impact of eliminations related to the consolidated Och-Ziff funds.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Reconciliation of Och-Ziff Funds Segment Economic Income to (Loss) Earnings Attributable to Class A Shareholders

	Year Ended December 31,		
	2016	2015	2014
	(dollars in thousands)		
Net (Loss) Income Attributable to Class A Shareholders—GAAP	\$ (130,762)	\$ 25,740	\$ 142,445
Change in redemption value of Preferred Units	6,082	—	—
Net (Loss) Income Attributable to Och-Ziff Capital Management Group LLC—GAAP	\$ (124,680)	\$ 25,740	\$ 142,445
Net income (loss) attributable to the Och-Ziff Operating Group A Units	(195,087)	136,449	365,793
Equity-based compensation, net of RSUs settled in cash	75,217	106,565	104,334
Income taxes	10,886	132,224	139,048
Adjustment for incentive income allocations from consolidated funds subject to clawback	—	(45,077)	(32,737)
Allocations to Och-Ziff Operating Group D Units	—	12,675	27,010
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	6,752	8,612	2,816
Reorganization expenses	—	14,064	16,083
Changes in tax receivable agreement liability	1,663	(55,852)	(40,383)
Depreciation, amortization and loss on asset held for sale	19,882	11,331	6,990
Other adjustments	(6,208)	(1,515)	(1,456)
Other Operations	(5,431)	(5,059)	(21,943)
Economic Income - Och-Ziff Funds Segment	\$ (217,006)	\$ 340,157	\$ 708,000

19. SUBSEQUENT EVENTS

Dividend

On February 15, 2017, the Company announced a cash dividend of \$0.01 per Class A Share. The dividend is payable on March 6, 2017, to holders of record as of the close of business on February 27, 2017.

Preferred Units Offering

On January 23, 2017, the Company completed a \$150.0 million issuance and sale of 150,000 Preferred Units. See Note 11 regarding the terms of the Preferred Units.

2017 Incentive Program, Och-Ziff Operating Group P Units and Limited Partnership Agreements Amendments

On February 13, 2017, the Company's board of directors approved the Och-Ziff Capital Management Group LLC 2017 Incentive Program (the "2017 Incentive Program"). The 2017 Incentive Program was established by (i) certain modifications to each of the limited partnership agreements of OZ Management, OZ Advisors and OZ Advisors II (collectively, the Operating Partnerships) that was effective as of March 1, 2017 (collectively, as amended, the "Limited Partnership Agreements"), and (ii) an Exchange Agreement that was effective as of March 1, 2017 (the "Class P Exchange Agreement").

Under the terms of the 2017 Incentive Program, the Company granted Class P common units in each Operating Partnership (an "Incentive Award"). One Class P common unit in each Operating Partnership, collectively, is referred to as an "Och-Ziff Operating Group P Unit." The Company granted 73.4 million Och-Ziff Operating Group P Units on March 1, 2017 (the "Date of Grant").

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Och-Ziff Operating Group P Units entitle the participants to receive distributions of future profits of the Och-Ziff Operating Group and each Och-Ziff Operating Group P Unit becomes exchangeable for one Class A Share (or the cash equivalent), in each case upon satisfaction of certain conditions described below. The terms of the Incentive Awards described below may be varied for certain executive managing directors.

An executive managing director's Och-Ziff Operating Group P Units will conditionally vest if: (i) the executive managing director has continued in uninterrupted service until the third anniversary of the Date of Grant (the "Service Condition"), and (ii) on or after such date, the total shareholder return on Class A Shares based on the average closing price on the NYSE for the calendar month prior to the Date of Grant equals or exceeds certain specified thresholds (expressed as percentages, "Performance Thresholds") (the "Performance Condition"). The Performance Thresholds are set on the Date of Grant. The Performance Thresholds for the initial grant of Och-Ziff Operating Group P Units to be granted on March 1, 2017 are as follows: 20% of Units vest upon a Performance Threshold of 25% being achieved; an additional 40% (for a total of 60%) of Units vest upon a Performance Threshold of 50% being achieved; an additional 20% (for a total of 80%) of Units vest upon a Performance Threshold of 75% being achieved; and an additional 20% (for a total of 100%) of the Units vest upon a Performance Threshold of 125% being achieved.

If an Och-Ziff Operating Group P Units has not satisfied both the Service Condition and the Performance Condition by the sixth anniversary of the Date of Grant, it will be forfeited and canceled immediately.

Executive managing directors will be entitled to receive distributions on their Och-Ziff Operating Group P Units only after satisfaction of the Service Condition and the Performance Condition, from which time the executive managing director will be entitled to receive the same distributions per Unit on each Och-Ziff Operating Group P Units as holders of Och-Ziff Operating Group A Units and Och-Ziff Operating Group D Units.

Following vesting, Och-Ziff Operating Group P Units may be exchanged in the executive managing director's discretion for Class A Shares (or the cash value thereof, as determined by the Board) provided that (i) sufficient Appreciation (as defined in the Limited Partnership Agreements) has occurred with respect to each Operating Partnership for such Och-Ziff Operating Group P Unit to have become economically equivalent to one Och-Ziff Operating Group A Unit, and (ii) shareholders approve an amendment to the Company's 2013 Incentive Plan to reserve a sufficient number of Class A Shares under the 2013 Incentive Plan. In addition, if the amendment to the 2013 Incentive Plan is approved by shareholders, each holder of Och-Ziff Operating Group P Units will receive a number of Class B Shares equal to the number of Och-Ziff Operating Group P Units they hold. One Class B Share will be canceled for each Class A Share issued upon an exchange of an Och-Ziff Operating Group P Unit. Upon the exchange of an Och-Ziff Operating Group P Unit for a Class A Share (or the cash equivalent), the exchanging executive managing director will have a right to potential future payments owed to him or her under the tax receivable agreement as a result of such exchange.

The Company is currently evaluating the accounting for the Och-Ziff Operating Group P Units.

Additionally, effective March 1, 2017, the Board of Directors approved amendments to the Limited Partnership Agreements of the Operating Partnerships that in addition to the events discussed above, were also amended to adjust the measurement thresholds used in calculating the appreciation necessary to permit a determination that Och-Ziff Operating Group D Units issued prior to March 1, 2017, have become economically equivalent to Och-Ziff Operating Group A Units, making it more likely that outstanding Och-Ziff Operating Group D Units (and, due to the fact that economic equivalence is determined chronologically based on order of issuance, subsequently issued Och-Ziff Operating Group D Units) will convert to Och-Ziff Operating Group A Units. See Note 2 for a description of the accounting for Och-Ziff Operating Group D Units.

Subsequent to December 31, 2016, the Company granted 39.0 million Och-Ziff Operating Group D Units to James Levin. This grant has no immediate impact to the Company's consolidated financial statements. See Note 2 for a description of the accounting for Och-Ziff Operating Group D Units.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Relinquishment Agreement

Och-Ziff Corp and Och-Ziff Holding, as the general partners of the Operating Partnerships, entered into a Relinquishment Agreement with Daniel S. Och and certain family trusts over which Mr. Och has investment control (the "Och Trusts") effective as of March 1, 2017 (the "Relinquishment Agreement"). Pursuant to the Relinquishment Agreement, Mr. Och and the Och Trusts agreed to cancel, in the aggregate, 30.0 million of their vested Och-Ziff Operating Group A Units. The Relinquishment Agreement provides that if any of the Och-Ziff Operating Group D Units granted to James S. Levin on March 1, 2017 are forfeited, such forfeited units (up to an aggregate amount of 30.0 million) shall be reallocated to Mr. Och and the Och Trusts pursuant to the terms of the Limited Partnership Agreements. The Company expects to account for this as a repurchase of Och-Ziff Operating Group A Units for no consideration.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
SUPPLEMENTAL FINANCIAL INFORMATION
QUARTERLY RESULTS—UNAUDITED

The quarterly results presented below were prepared in accordance with GAAP and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results.

The Company generally does not recognize incentive income during the first three quarters of the year other than amounts earned as a result of fund investor redemptions during the period or amounts earned on longer-term assets under management. Additionally, compensation and benefits generally comprise a significant portion of total expenses, with discretionary cash bonuses comprising a large portion of total compensation and benefits expense. These cash bonuses are based on total annual revenues, which are significantly influenced by incentive income earned by the Company at the end of the year. Annual discretionary bonuses have historically been determined and expensed in the fourth quarter each year.

The following table presents the Company's unaudited, summarized quarterly results and balance sheet information for the year ended December 31, 2016:

	Year Ended December 31, 2016			
	First	Second	Third	Fourth
(dollars in thousands, except per share amounts)				
Selected Operating Statement Data				
Total revenues	\$ 188,442	\$ 152,558	\$ 148,105	\$ 281,259
Total expenses	327,437	336,214	108,210	310,279
Total other income	794	1,066	1,624	3,191
Income taxes	18,539	10,911	9,986	(28,550)
Consolidated Net (Loss) Income	(156,740)	(193,501)	31,533	2,721
Less: Loss (income) attributable to noncontrolling interests	87,845	115,592	(16,570)	6,890
Less: Income attributable to redeemable noncontrolling interests	(461)	(662)	(678)	(649)
Net (Loss) Income Attributable to Och-Ziff Capital Management Group LLC	(69,356)	(78,571)	14,285	8,962
Less: Change in redemption value of Preferred Units	—	—	—	(6,082)
Net (Loss) Income Attributable to Class A Shareholders	\$ (69,356)	\$ (78,571)	\$ 14,285	\$ 2,880
(Loss) Earnings Per Class A Share				
(Loss) earnings per Class A Share - basic	\$ (0.38)	\$ (0.43)	\$ 0.08	\$ 0.02
(Loss) earnings per Class A Share - diluted	\$ (0.38)	\$ (0.44)	\$ 0.05	\$ 0.02
Weighted-average Class A Shares outstanding - basic	182,548,852	182,454,677	182,521,225	183,152,279
Weighted-average Class A Shares outstanding - diluted	182,548,852	479,771,696	479,838,244	183,152,279
Selected Balance Sheet Data				
Cash and cash equivalents	\$ 228,726	\$ 368,161	\$ 430,470	\$ 329,813
Assets of consolidated Och-Ziff funds	36,532	37,683	39,463	55,205
Total assets	1,255,312	1,375,068	1,388,257	1,485,555
Debt obligations	442,628	562,204	561,757	577,128
Liabilities of consolidated Och-Ziff funds	1,836	133	653	15,197
Total liabilities	1,438,983	1,731,255	1,639,589	1,495,526
Redeemable noncontrolling interests	19,629	20,292	20,973	284,121
Shareholders' deficit attributable to Class A Shareholders	(459,368)	(530,790)	(451,491)	(466,021)
Shareholders' equity attributable to noncontrolling interests	256,068	154,311	179,186	171,929
Total shareholders' equity	(203,300)	(376,479)	(272,305)	(294,092)

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC
SUPPLEMENTAL FINANCIAL INFORMATION
QUARTERLY RESULTS—UNAUDITED

The following table presents the Company's unaudited, summarized quarterly results and balance sheet information for the year ended December 31, 2015:

	Year Ended December 31, 2015			
	First	Second	Third	Fourth
(dollars in thousands, except per share amounts)				
Selected Operating Statement Data				
Total revenues	\$ 332,851	\$ 321,399	\$ 325,903	\$ 342,828
Total expenses	188,903	171,193	228,063	365,781
Total other income (loss)	46,002	(3,327)	(20,773)	(91,406)
Income taxes	25,160	82,025	12,422	12,617
Consolidated Net Income (Loss)	164,790	64,854	64,645	(126,976)
Less: Loss (income) attributable to noncontrolling interests	(133,353)	(58,022)	(78,971)	79,169
Less: Loss (Income) attributable to redeemable noncontrolling interests	(5,566)	(2,072)	31,743	25,499
Net Income (Loss) Attributable to Och-Ziff Capital Management Group LLC	25,871	4,760	17,417	(22,308)
Less: Change in redemption value of Preferred Units	—	—	—	—
Net Income (Loss) Attributable to Class A Shareholders	\$ 25,871	\$ 4,760	\$ 17,417	\$ (22,308)
Earnings (Loss) Per Class A Share				
Earnings (loss) per Class A Share - basic	\$ 0.15	\$ 0.03	\$ 0.10	\$ (0.12)
Earnings (loss) per Class A Share - diluted	\$ 0.14	\$ 0.03	\$ 0.06	\$ (0.12)
Weighted-average Class A Shares outstanding - basic	177,634,861	177,693,164	177,805,122	178,601,584
Weighted-average Class A Shares outstanding - diluted	180,156,745	182,095,697	484,171,524	178,601,584
Selected Balance Sheet Data				
Cash and cash equivalents	\$ 283,211	\$ 279,357	\$ 311,345	\$ 254,070
Assets of consolidated Och-Ziff funds	8,286,558	8,966,626	9,192,353	9,416,702
Total assets	9,676,417	10,246,227	10,494,103	10,691,456
Debt obligations	451,187	450,427	449,655	448,882
Liabilities of consolidated Och-Ziff funds	6,083,704	6,623,036	6,987,225	7,315,917
Total liabilities	7,349,806	7,841,180	8,208,512	8,618,604
Redeemable noncontrolling interests	708,813	884,042	857,609	832,284
Shareholders' deficit attributable to Class A Shareholders	(308,008)	(372,959)	(345,690)	(415,830)
Shareholders' equity attributable to noncontrolling interests	1,925,806	1,893,964	1,773,672	1,656,398
Total shareholders' equity	1,617,798	1,521,005	1,427,982	1,240,568