Finding Diversified Income Amid Challenging Times

Diversification for an Overall Investment Portfolio

With stocks and bonds both falling amid elevated public market volatility, many investors are wondering how to adapt their portfolios, particularly fixed income holdings. Raising allocations to credit—restrained for years by ultra-low interest rates—may offer a solution.

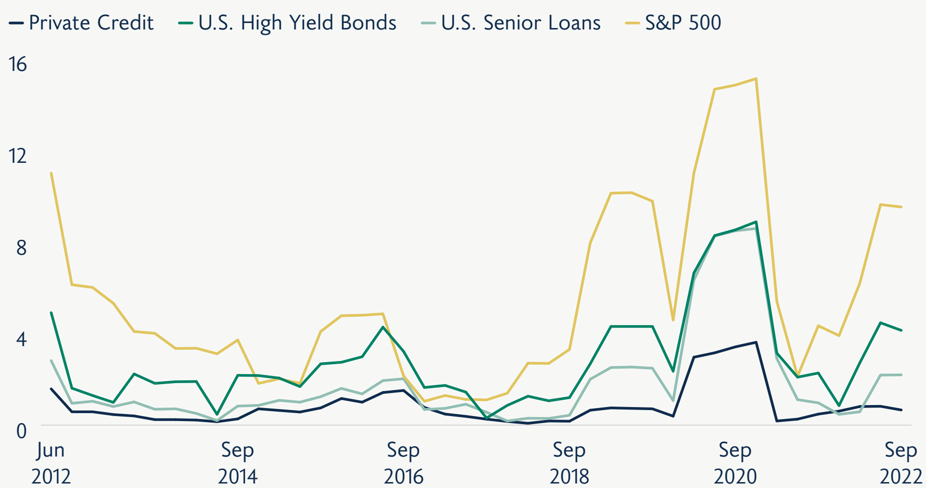
With inflation high and the U.S. Federal Reserve tightening monetary policy, we are in a late-cycle market where there is potential for asset prices to be lower but where returns can still be attractive. These conditions favor strategies seeking total return in credit, where yields are now particularly attractive. For example, high yield bond yields were approaching 10% at the end of the third quarter compared with 4.7% a year earlier, while senior loans yielded over 10% compared with 5% a year ago.[1]

Historically, investing in a combination of private credit, U.S. high yield bonds and U.S. senior loans, produced much lower standard deviation versus the S&P 500 Index, and private credit has produced very attractive returns against the S&P.[2]

Multi-Asset Credit Produced Better Risk-Adjusted Returns With Lower Volatility vs. Equities

Lower Volatility

Rolling One-Year Volatility (10 Years)[2]



Stronger Risk-Adjusted Returns[2]

	Annualized Standard Deviation (10 years)	Sharpe Ratio[3] (10 years)
S&P 500	14.34%	0.81
U.S. High Yield Bonds	7.40%	0.52
U.S. Senior Loans	5.26%	0.70
Private Credit	**2.87%**	**3.14**

As of September 30, 2022.
Source: Cliffwater, S&P LCD, ICE BofAML, Credit Suisse.

[1] Source: ICE BofAML, Credit Suisse. High Yield Bonds represented by ICE BofA U.S. High Yield Index (H0A0). U.S. Senior Loans represented by Credit Suisse Leveraged Loan Index.

[2] Represents the rolling one-year standard deviation of quarterly returns over the past 10 years, as well as 10-year annualized standard deviations and Sharpe ratios as of September 30, 2022. Private Credit represented by Cliffwater Direct Lending Index. High Yield Bonds represented by ICE BofA U.S. High Yield Index (H0A0). U.S. Senior Loans represented by Credit Suisse Leveraged Loan Index.

[3] Sharpe Ratios are commonly-used measures of the risk/reward profile of traditional portfolios and broad market indices. As applied to alternative investment funds and strategies, however, these statistics may materially understate the true risk profile of an alternative investment because alternative investment funds are subject to principal loss, which is not reflected in the standard deviation of returns, the only measure of risk used in calculating Sharpe Ratios.

Finding Relative Value Among Credit Opportunities

It can be difficult for individual investors to construct and manage a diversified portfolio of performing credit holdings given the variety of asset types in public *and* private markets, economic sectors and geographic regions. Typically, only the most sophisticated institutional investors can track all these assets to find relative value.

However, the **Oaktree Diversified Income Fund** (the "Fund") is a closed-end interval fund that does exactly that, opening access to credit markets to high-net-worth investors and family offices via an asset manager with a long, successful history in performing credit. Crucially, the Fund's strategy also offers periodic redemptions[4] likely to appeal to many investors.

Low Duration, Low Leverage

With public market volatility today being largely driven by market participants' changing views of the macro landscape even when there is no meaningful change in data, we believe that passive investing in credit would be a mistake.

In contrast to passive strategies, the Fund employs an unconstrained relative-value approach that can tilt between liquid high yield bonds,[5] senior leveraged loans, structured credit, emerging markets debt, convertibles and cash. The Fund portfolio comprises nearly 350 issuers, with its largest sector allocations to healthcare technology, software, hotels, restaurants and leisure and commercial services & supplies. More than four-fifths of holdings are in North America.

To offset any potential losses and increase returns, the Fund allocates roughly one quarter of its holdings to private markets (with another quarter allocated to high yield). The portfolio's holding of public securities facilitates the strategy being structured as an interval fund where investors may be able to access funds quarterly.[4] Investors have received quarterly distributions of about 6%[6] on an annualized basis.

With interest rates rising and the U.S. economy facing recession, we believe the public debt assets in the Fund have the potential to mitigate default expectations given their credit quality. In addition, more than 60% of the Fund's holdings are floating rate bonds and loans, offering what we believe is an effective hedge against inflation and rising interest rates. This mix of fixed and floating-rate assets means that the Fund currently has a duration[7] of 1.38 years (compared to 4 years for its benchmark, the S&P/LSTA Leveraged Loan Index,) theoretically making it less sensitive to interest rate risk at a time when rates are rising.

[4] Shareholders generally will not be able to liquidate their investment on demand or in the amount desired other than as a result of repurchases of their Shares by the Fund, and then only on a limited basis.

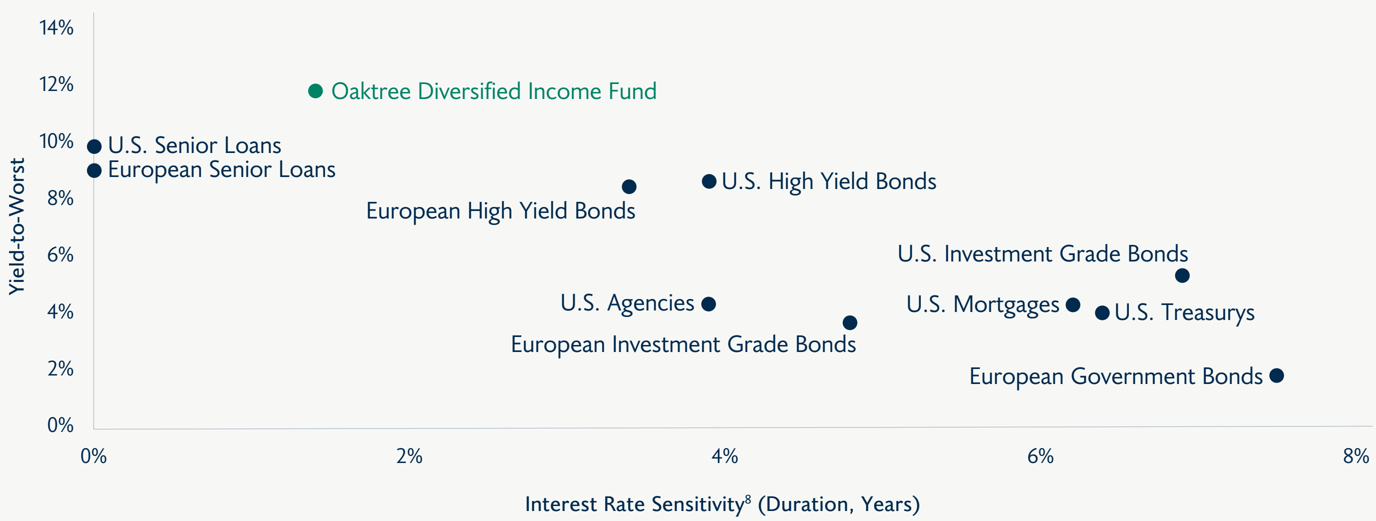
[5] High-yield debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered speculative. Investment by the Fund in lower- rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. Bank loans (including senior loans) are usually rated below investment grade, and the market for bank loans may be subject to irregular trading activity, wide bid/ask spreads, restrictions on resale, and extended trade settlement periods. The Fund's investments in senior loans may be subject to greater levels of credit risk, call risk, settlement risk and liquidity risk than funds that do not invest in such securities.

[6] Distributions can be from other sources than portfolio income, which can reduce investor's return and may not be sustainable.

[7] Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

ODIDX Historically Exhibited Lower Duration Than Other Fixed-Income Asset Classes

Interest Rate Sensitivity[8]/Yield-to-Worst Profile of Oaktree Diversified Income Fund vs. Fixed Income Asset Classes



As of November 30, 2022

Source: Oaktree, Cliffwater, S&P Leveraged Commentary & Data, ICE BofAML, Credit Suisse, Bloomberg.

Note: Yield-to-Worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without default. Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

U.S. Investment Grade represented by ICE BofA US Corporate Index, U.S. Mortgages by ICE BofA U.S. Mortgage-Backed Securities Index, U.S. Agencies by ICE BofA US Bullet Agency Index, U.S. Treasurys by ICE BofA US Treasury Index, European Investment Grade by ICE BofA Euro Corporate Index, European Government by ICE BofA German Government Index, U.S. High Yield Bonds by FTSE U.S. High-Yield Market Capped Index, U.S. Senior Loans by Credit Suisse Leveraged Loan Index, European High Yield Bonds by ICE BofA Merrill Lynch Global High Yield European Issuers Non-Financial 3% Constrained Ex Russia Index, and European Senior Loans by Credit Suisse Western European Leveraged Loan Index.

Investing the Right Way

Given that the Fund invests in below-investment-grade assets, we are cautious with leverage, using 1.14x at the end of November and expecting to limit that metric to no more than 1.5x.

In these challenging times, credit is an appealing asset class that aims to add income and offer superior returns without taking undue credit risk or duration risk. However, that does not mean that all credit strategies will perform well. Instead, we believe that investing in performing credit favors active managers with a proven history of success earned over many credit cycles. As Oaktree Co-Chairman and Founder Howard Marks wrote in The Most Important Thing: Uncommon Sense for the Thoughtful Investor, "Investment success doesn't come from buying good things, but rather from buying things well."

[8]Interest rate sensitivity as measured by duration.

IMPORTANT INFORMATION

A fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 855-862-5873 or visiting www.brookfieldoaktree.com. Read the prospectus carefully before investing.

Read the prospectus carefully before investing. Risks to consider: Investing involves risk. Principal loss is possible. There can be no assurance that the Fund will achieve its investment objective. The Fund will subject Fund stockholders to greater levels of credit risk, call risk and liquidity risk than funds that do not invest in such securities. Generally, lower rated or unrated securities of equivalent credit quality offer a higher return potential than higher rated securities but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of a default or bankruptcy of the issuers of such securities. An investment in the securities of financially distressed issuers can involve substantial risks. These securities may present a substantial risk of default or may be in default at the time of investment. The Fund currently intends to use leverage to seek to achieve its investment objective. Leverage creates risks that may adversely affect the return for the holders of common stock. The Fund may invest in securities of companies in an "emerging market." Investments in emerging market securities involve a greater degree of risk than, and special risks in addition to the risks associated with, investments in domestic securities or in securities of foreign, developed countries. The impact of COVID-19, and other epidemics and pandemics that may arise in the future, has affected and may continue to affect the economies of many nations, individual companies and the global markets, including liquidity, in general in ways that cannot necessarily be foreseen at the present time.

The Fund is new with limited operating history and there can be no assurance that the Fund will grow or maintain an economically viable size, in which case the Board of Trustees of the Fund may determine to liquidate the Fund.

There are no primary benchmarks for Emerging Markets Debt, Real Estate Debt or Corporate Structured Credit, as Oaktree is not aware of any benchmarks that, in Oaktree's opinion, provide a basis for measuring the performance of the relevant strategies, particularly in light of Oaktree's investment philosophy, strategy and implementation. Thus, for these strategies, we have presented the described indices below for informational purposes only as a representation of the performance of certain market asset classes. Benchmark returns are before fees and expenses.

Sources of foreign exchange rates may be different between the Composite and the benchmark. Source: © 2021 FTSE Index LLC. All rights reserved.

Convertible Bonds: The Thomson Reuters Global Focus Convertible Index is represented by the Oaktree custom Global Convertibles Index through December 2015 and the Thomson Reuters Global Focus Convertible Index thereafter. The Thomson Reuters Global Focus Convertible Index is composed of larger balanced convertibles which meet monthly price and premium tests and has no restrictions on credit rating. Convertibles that are fixed income surrogates or equity substitutes are removed from the index and replaced by balanced securities. The benchmark was changed prospectively because this index more closely matches the strategy's current exposures to High Income Convertibles, U.S. Convertibles and Non-U.S. Convertibles. The index is valued in and hedged to U.S. dollars. Prior to January 2016, the benchmark was the Custom Global Convertibles Index represents a weighted blend of Oaktree's primary benchmarks for the U.S. Convertibles and Non-U.S. Convertibles strategies. The benchmark for the High Income Convertibles strategy allocation is represented by the U.S. Convertibles benchmark. The U.S. Convertibles benchmark is the ICE BofA MLAll U.S. Convertible Index, and the Non-U.S. Convertibles benchmark is the JACI Global ex-U.S. (Local) Index through December 31, 2014 and the Thomson Reuters Global Focus ex-U.S. Index thereafter. The shift in the Non-U.S. Convertibles benchmark is a result of Jefferies discontinuing their index. The Thomson Reuters convertible index was selected as it mirrors Oaktree's convertibles investing approach and is the most widely used index in Europe. The custom index reflects the asset allocation policy weights of the Composite and is rebalanced monthly based on the Composite's policy weight changes and adjustments, which are implemented in the next full measurement period.

Corporate Structured Credit: The JP Morgan CLO 2.0 BBB Post-Crisis Index tracks floating-rate CLO BBB securities in post crisis vintages, which consists of deals issued in 2010 and later. The index utilizes a market-value weighted methodology.

Emerging Markets Debt: The JP Morgan Corporate Emerging Market Bond High Yield Index (CEMBI HY) is a global, liquid corporate emerging markets index that tracks U.S.-denominated corporate bonds (high yield subset only) issued by emerging markets entities.

European Government: The ICE BofA German Government Index tracks the performance of EUR denominated sovereign debt publicly issued by the German government in the German domestic or eurobond market. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index.

European High Yield Bonds: The ICE BofA Merrill Lynch Global High Yield European Issuers Non-Financial 3% Constrained, Ex Russia Index is a sub-index that contains all securities in the broader index except those from Financial issuers or with Russia as their country of risk but caps issuer exposure at 3%. The index is rebalanced monthly. The index is USD Hedged.

European Investment Grade: The ICE BofA Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance.

European Senior Loans: The Credit Suisse Western European Leveraged Loan Index is designed to mirror the investable universe of the Western European leveraged loan market. The index includes loans denominated in U.S. dollars and Western European currencies. Loans must be rated Moody's/S&P of Baa1/BBB+ or lower, have a minimum initial spread of Libor + 125 bps, and be a funded loan. This index is EUR Hedged for the European Senior Loan Composite and USD Hedged for the European senior loan component within Oaktree's Global Credit strategy.

Private Credit: The Cliffwater Direct Lending Index measures the unlevered, gross of fee performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

Real Estate Debt: The Bloomberg Barclays Capital CMBS 2.0 BBB Index is a rules-based index constructed to measure the market of investment-grade CMBS BBB conduit and fusion deals issued since the beginning of 2010.

U.S. Agencies: The ICE BofA U.S. Bullet Agency Index is a subset of ICE BofA U.S. Agency Index excluding all securities with embedded call or put options except those having passed their last exercise date.

U.S. High Yield Bonds: The ICE BofA U.S. High-Yield Index is market capitalization weighted and is designed to measure the performance of U.S. dollar-denominated below-investmentgrade (commonly referred to as "junk") corporate debt publicly issued in the U.S. domestic market.

U.S. Investment Grade: The ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. Index constituents are market capitalization weighted.

U.S. Mortgages: The ICE BofA U.S. Mortgage Backed Securities Index tracks the performance of U.S. dollar denominated fixed rate residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. Hybrid, interest-only, balloon, mobile home, graduated payment and quarter coupon fixed rate mortgages are excluded from the index, as are all collateralized mortgage obligations.

U.S. Senior Loans: The Credit Suisse Leveraged Loan Index is designed to mirror the investible universe of the $US-denominated leveraged loan market. The index includes only those loans rated “5B” or lower, or if unrated, the initial spread level must be Libor plus 125 basis points or higher. The index includes only funded loans with a tenor of at least one year.

U.S. Treasuries: The ICE BofA U.S. Treasury Index (10 year) is a subset of the Bank of America Treasury Master Index. The index measures the total return performance of U.S. Treasury bonds with an outstanding par that is greater than or equal to $25 million.

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