

Blue Owl Capital, Inc. (OWL)

4Q 2025 EARNINGS

February 5, 2026

Operator

Good morning, and welcome to the Blue Owl Capital's Fourth Quarter and Full Year 2025 Earnings Call. [Operator Instructions] I'd like to advise all parties that this conference call is being recorded.

I will now turn the call over to Ann Dai, Head of Investor Relations for Blue Owl.

Ann Dai

Head of Investor Relations

Thanks operator, and good morning to everyone. Joining me today are Marc Lipschultz, our co-Chief Executive Officer, and Alan Kirshenbaum, our Chief Financial Officer.

I'd like to remind our listeners that remarks made during the call may contain forward-looking statements, which are not a guarantee of future performance or results and involve a number of risks and uncertainties that are outside the company's control. Actual results may differ materially from those in forward-looking statements as a result of a number of factors, including those described from time-to-time in Blue Owl Capital's filings with the Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statements.

We would also like to remind everyone that we'll refer to non-GAAP measures on the call which are reconciled to GAAP figures in our earnings presentation, available on the Shareholders section of our website at blueowl.com. Please note that nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase, an interest in any Blue Owl fund.

This morning, we issued our financial results for the fourth quarter of 2025, reporting fee-related earnings, or FRE of \$0.27 per share and distributable earnings or DE of \$0.24 per share. For the full year 2025, we reported FRE of \$0.96 per share and DE of \$0.84 per share.

We declared a dividend of \$0.225 per share for the fourth quarter payable on March 2 to holders of record as of February 20, and we also announced an annual fixed dividend of \$0.92 for 2026, or \$0.23 per quarter, starting with our first quarter 2026 earnings.

During the call today, we'll be referring to the earnings presentation, which we posted to our website this morning, so please have that on hand to follow along.

With that, I'd like to turn the call over to Marc.

Marc Lipschultz
Co-Chief Executive Officer

Great. Thank you so much, Ann.

Blue Owl experienced significant growth in 2025, measured by record fundraising across an increasingly diversified set of strategies globally. We raised \$56 billion of capital across the business, including over \$17 billion during the fourth quarter, with record years for both our institutional and private wealth channels. During the fourth quarter, we crossed \$300 billion of AUM, another milestone for the firm, and we are seeing robust investor demand and investment pipelines across the business as we enter 2026.

Our ability to drive strong results for shareholders starts with investment performance, and we continue to deliver for our clients. Investment performance matters greatly to us as it relates to long-term growth for Blue Owl and if we deliver great results, business growth will follow.

Performance of the funds we manage remains strong, supported by our focus on generating attractive returns through income, leveraging our scale to create opportunities that offer attractive returns per unit of risk and protecting the downside through investment structure and rigorous underwriting.

Our net lease strategy generated gross returns of over 13% in 2025. And our ORENT product net return was approximately 11%, meaningfully outperforming the FTSE REIT Index total return of 2.3% due to our differentiated investment strategy. And fundraising for ORENT has accelerated, with inflows up 11% quarter-over-quarter and 55% year-over-year, making ORENT the top net fundraiser in non-traded REITs in 2025.

On a fully realized basis, our net lease flagship funds have generated a net IRR of 24% since inception. During the fourth quarter, we sold the final assets of our Digital Infrastructure Fund I for a realized net IRR of approximately 11.5%.

Direct lending net returns were 8.7% for the year compared to the leveraged loan index return of 5.9%, and our continuously offered BDCs had continued strong performance, with net returns of 7.4% for OCIC and 8.4% for OTIC. And our GP Stakes funds continued to generate very strong IRRs with a significant amount driven by cash yield.

In credit, the fourth quarter was marked by a high level of debate and discussion about the health of the private credit markets. The fact of the matter is the trends we observed within Blue Owl's credit portfolios remain strong and did not align with the headlines or investor fears. This sentiment seems to be echoed broadly by other asset managers and banks alike across broader credit markets.

As of the fourth quarter, we continue to see resilient KPIs across our Direct Lending strategy, with healthy underlying portfolio company growth and no meaningful movement in our metrics such as watchlist, LTVs, amendment requests or revolver draws. On average, our borrowers have delivered high single-digit revenue growth and low teens EBITDA growth year-over-year.

Specifically in our tech lending portfolio, this growth has been even higher in the low to mid-teens range on average. Notably, since the launch of ChatGPT in November 2022, which is widely regarded as a turning point in AI, borrowers in our tech portfolio have achieved cumulative weighted average revenue growth of nearly 40% and cumulative weighted average EBITDA growth of nearly 50% through September.

Our average annualized net realized loss rate has been 8 basis points, encompassing realized losses and gains. This remains well below industry average. Remember, this is not a zero-loss strategy. We have hundreds of borrowers, and we will have losses in the portfolio. No one can loan money without having losses. The expectation of our investors is that we will rigorously underwrite our deals to minimize defaults and maximize recoveries over time, which will drive attractive total returns as we have done very well.

In alternative credit, our portfolios similarly continue to perform as expected, putting up gross returns of 16.6% for the year with no meaningful signs of stress.

From a fundraising perspective, industry-wide non-traded BDCs experienced a slowdown in capital raising and elevated redemptions during the fourth quarter. This is in line with what we have seen in prior market environments with heightened volatility and fear. We saw this during COVID, with the Silicon Valley Bank failure and after tariffs were announced last year. We've always managed our funds with a sharp focus on leverage and liquidity, and during the fourth quarter, we met all investor requests for tenders as we have every quarter since inception.

Our view is that while sentiment for a particular product, strategy or asset class will fluctuate, strong risk-adjusted performance is the only thing that matters over the intermediate and long term. And our products have performed very well in this regard

across a wide range of economic and market environments. Despite the headwinds, we had a record quarter of equity raised in private wealth, with about \$5 billion raised during the fourth quarter and over \$17 billion for the full year.

We are now beginning to see the synergies of the acquisitions we made over the past 18 months. During the fourth quarter, we held a \$1.7 billion first close on our digital infrastructure evergreen product, ODIT, which followed an \$850 million close earlier in the year on our alternative credit interval fund, OWLCX, which has already reached \$1.8 billion of AUM in just 3 quarters.

In 2025, equity capital raised across our 5 wealth-dedicated evergreen products totaled \$15.4 billion for the year, which represents 66% of the beginning of the period fee-paying AUM in these products, despite substantial market shocks earlier in the year and near-term headwinds in the non-traded BDCs. All this is to say, we have expanded and diversified our private wealth footprint substantially, and we continue to feel that we are just scratching the surface of this market.

Moving to our institutional business, we likewise benefited from ongoing diversification and the investments we have made in global distribution. We saw record institutional equity fundraise of \$25 billion in 2025, up 80% year-over-year and constituting about 60% of total equity raised in 2025. This includes about \$5 billion raised for Direct Lending across funds and SMAs, and over \$6.5 billion raised for our net lease strategy across our global, European and co-invest vehicles.

Since 2020, the average time to market for a real estate fund has nearly doubled to more than 2 years, with roughly half of those funds also falling short of their fundraising targets, highlighting the broader challenges in this asset class. Blue Owl's net lease strategy bucked these trends, with our prior flagship fund, Net Lease Fund VI, holding a final close in the fourth quarter of 2024, above its hard cap, having been in market for just 16 months.

The momentum has continued into our current vintage, which remains in market and has raised 60% of its hard cap in just 3 quarters. And now we have very complementary capabilities in digital infrastructure, which is similarly focused on generating attractive income-driven returns through a net lease structure, working with tenants that have some of the best credit ratings in the world. We think we have a very unique offering for investors in digital infrastructure, a pure play that will benefit from the demand for hyperscalers for data centers while remaining focused on principal preservation.

And finally, to call out some of the contributors to our fundraising that have been less observable, we have now reached our \$2.5 billion target for the latest vintage of our opportunistic alternative credit product with \$1 billion of that raised in 2025. In total, we raised nearly \$4 billion across alternative credit in 2025 after having closed on the acquisition in September 2024.

Our GP-led continuation strategy is approaching the final close of its first vintage, for which it will have raised approximately \$2.5 billion. We think this is an excellent result for a first-time raise in a new strategy. It has exceeded our recent expectations on fundraising, and we've deployed a meaningful amount of the capital already. And in GP Stakes, as we previously disclosed, the strip sales we completed in 2025 drove \$2.6 billion of capital raised on top of fundraising for our minority stakes funds.

Looking at the big picture on fundraising, we took substantial steps forward by strengthening our global distribution platform, launching new products and expanding or launching new partnerships throughout the course of 2025. Entering the year, we knew this would be an investment and execution year, laying the tracks for future earnings growth. You can see the early successes of that long-term plan in the results that we reported this morning. Despite the significant investments we've made, we were able to end the year with FRE margins slightly above our guidance for 2025 and heading into 2026, we believe we can achieve modest operating leverage and continue to make progress on FRE per share growth.

Bringing it back to where I started, we continue to deliver for our clients. We strongly believe that high-quality performance drives business growth over time and that the continued diversification of the business will support well-balanced growth. We're very proud of the work that we've done over the past 2 years to position Blue Owl for long-term success across a variety of market environments, and we look forward to sharing more updates in the quarters to come.

With that, let me turn it to Alan to discuss our financial results.

Alan Kirshenbaum
Chief Financial Officer

Thank you, Marc. And good morning, everyone.

We are very pleased with the results we reported this quarter and for the full year. We had another very strong quarter of fundraising in 4Q, raising \$12 billion of equity. You can see the breakdowns on Slide 14 of our earnings presentation.

As you can see from our results, we ended the year with FRE margins of 58.3%, slightly above our guidance for 2025 and showing disciplined expense management. And we believe we can see modest margin expansion for 2026, targeting approximately 58.5% FRE margin. We also ended 2025 with FRE per share growth of 12%. As we focus on 2026, we believe we can show a modest increase in the growth rate for FRE per share, and we feel we can accelerate that growth in 2027 versus 2026.

Now a quick run-through of some other metrics for 2025. We grew FRE 19% and DE 16%. Total capital raised was \$56 billion, which represents an increase of 18% year-over-year and equity fundraising was \$42 billion, which represents an increase of more than 50% year-over-year.

AUM not yet paying fees grew to \$28.4 billion, representing over \$325 million of expected annual management fees once deployed. This is equivalent to approximately 13% embedded growth off of 2025 management fees. And as Marc walked through in his remarks, the performance across our strategies continues to be very strong. As you can see throughout our earnings presentation, including on Slides 4 and 22, we continue to deliver for our clients. Our products performed very well again in 2025.

Turning to our platforms. In credit, weighted average LTVs remained in the high 30s across Direct Lending and in the low 30s specifically in our tech lending portfolios. On average, underlying revenue and EBITDA growth across our portfolios was in the high single digits. As Marc mentioned earlier, credit quality remains very strong.

In Direct Lending, gross and net origination in the fourth quarter were \$12 billion and \$3.3 billion, bringing last 12 month gross and net originations to \$45.4 billion and \$13.2 billion, respectively. Despite strong public loan market conditions, we continue to see a growing pipeline of discussions, and importantly, we are seeing the benefits of incumbency, as approximately 60% of our gross originations in 2025 resulted from existing borrower relationships. We also continue to see very large deals being done in the direct lending market, with an average deal size of nearly \$2 billion for Blue Owl in 2025, up 23% from the prior year and we continue to lead or co-lead many of them.

Turning to alternative credit. We have continued to deploy meaningfully across investment grade and non-investment grade. In this strategy, we have been able to take

advantage of market dislocations, given the flexibility with which we approach various asset classes. We can buy assets, finance assets or engage in structured capital transactions depending on where we see relative risk/reward.

In Real Assets, we remain focused on our core competency, owning mission-critical assets from investment-grade counterparties, whether those are logistics facilities, manufacturing plants, or data centers leased to some of the largest companies in the world with exceptional credit ratings. We have called close to 2/3 of the capital for Net Lease Fund VI and believe that we will have nearly fully deployed the fund within the next couple of quarters, within 3 years of its final close.

We have also started committing capital out of the current vintage of net lease with a meaningful pipeline of over \$60 billion of transaction volume under letter of intent or contract to close. In digital infrastructure, we are similarly seeing a substantial pipeline and have called over 50% of the capital in Fund III, which just held its final close in April of 2025.

In GP Strategic Capital, performance across the funds remains strong. We have begun to see increasing levels of activity in partner manager funds across both deployment and monetization, including what we believe to be the largest transaction ever announced by a sponsor. The consolidation trend remains in place, with the percentage of capital raised by funds raising more than \$5 billion continuing to increase over the past 5 years. This has been a central part of our investment thesis in our large-cap strategy and our fund investors have been beneficiaries, with the AUM of our partner managers growing more than 30% faster than the broader market over the past 10 years.

Okay. A couple of notes I wanted to highlight before we wrap up. On our effective tax rate, we expect 2026 to be in the mid- to high single-digit percentage range, in line with our general expectation that our effective tax rate increases a few percent each year. As a reminder, we pay our tax receivable agreement during the first quarter each year, so expect a higher effective tax rate for the first quarter of 2026 and a much lower for the second through fourth quarters. For reference, we disclose an estimate of the next few years' TRA payments in our quarterly SEC filings.

On stock buybacks, the company buyback and senior executive purchases totaled approximately \$70 million in the fourth quarter of 2025. When we see our stock deeply discounted, we intend to utilize our existing stock repurchase program. As it relates to share count, we currently expect 2% growth in 2026, with roughly 14 million shares to be

issued related to the acquisition of our digital infrastructure strategy and the remainder being driven by normal course stock compensation.

As for stock compensation, we have 3 types of items running through our stock comp expense numbers, all on Slide 28 of the earnings presentation. The line to focus on, our regular way year-end stock compensation expense, is equity-based compensation, other, which we expect will be running at approximately \$365 million for 2026. As a reminder, the amortization of stock-based compensation from business combination grants will tail off by the end of 2026. And the line called acquisition-related is GAAP amortization expense related to some of the acquisitions we've made over the last few years.

Finally, I'd like to pull the lens back for a moment. There's been a lot of noise about our sector over the past several months. Across our portfolios, we have a very diversified set of investments that generate high income for our investors with downside protection. We have high FRE margins that we expect will continue to expand and are laser-focused on increasing the growth rate of our FRE per share each year. We have invested for expansion and diversification across the business with the results showing continued strong fundraising across our products and importantly, strong performance returns.

Thank you very much for joining us this morning. Operator, can we please open the line for questions?

Operator

[Operator Instructions]

Your first question comes from the line of Craig Seigenthaler with Bank of America.

Craig Siegenthaler

Bank of America

And despite the stock reaction, it's nice to see the strong fundraising and 62% FRE margin result in the quarter.

So my question is on software AI disruption, which has really emerged as a big theme recently. Can you help us size up your exposure across both debt and equity. And then as you take a step back and look across your hundreds of private investments, what are you seeing in the pipeline in terms of credit quality? Because if you look at returns, revenue, EBITDA growth, interest coverage, general credit quality, like it doesn't look like there's any red flags yet. So are there any sections of the software book that concerns you?

Marc Lipschultz
Co-Chief Executive Officer

Yes. Thank you very much. So let's level set and come to those specific answers. So a couple of observations to start with. Tech lending has worked, continues to work, and to get very direct right to your answer, no, we don't have red flags and point of fact, we don't have yellow flags. We actually have largely green flags. The tech portfolio continues to be the most pristine amongst all of our portfolios, amongst all of our subsectors. I appreciate we're all looking forward. But remember, these are loans that are on average 30% of the value of the enterprise at time of acquisition, or LTV, with huge equity cushions. These are companies on average. Let's -- again, let's be fact-based as opposed to headline driven since -- let's use November '22, the advent of ChatGPT as some kind of moment of AI's arrival.

Since that time, the portfolio on average has grown revenue 40% and EBITDA 50%, in software names. Bringing it much more current because we can all agree that maybe in November, it was doing poems, so maybe it didn't matter. But let's bring it to this quarter, the fourth quarter, the revenue growth was 10%, and the EBITDA growth in those software names was mid-teens. That's fourth quarter quarter-over-quarter.

The -- it is not a monolith, and it's -- listen, this is the opportunity because, obviously, when this happens, of course, markets get deeply disrupted, that hopefully leads to spread opportunity. It certainly leads to dispersion in performance and we will outperform. If you look at all of our products, and we led with this in my early, beginning of my comments here, they were there for a reason. The end of the day, stories don't drive results, results drive results.

And as you can see, we have delivered on every one of our products that absolutely top-level performance in both total return and in terms of non-accruals and in terms of losses. Thinking about what we've run at, an 8 basis point net loss rate. And so these facts do matter. Remember, yesterday, everyone, I'm sure, is tuned into both, on the one hand, the software performance. But on the other, I mean, you got to say the software stock performance. But then folks that actually understand this, like let's say, I think we can all agree, Jensen Huang has a pretty good understanding of AI, say this idea that AI is the end of software is one of the most ridiculous things he has heard.

And the reason that's ridiculous is because AI -- software itself is not a monolith. Software, which, it's a system of record where you are integrated into the business processes of large companies. Remember, business processes are a big part of how companies operate, software is an enabler. And the best companies, what we are seeing,

that are embedded in that position and have data moats and operating environments like health care and financial services with 0 tolerance for risk environments, regulatory limitations, what we're seeing is they're the ones that are the adopters of AI. They're the ones that are then turning around and saying, "Here, I can offer you an agentic solution to replace some of your human costs, some of your labor costs by integrating these capabilities into the software I already have resident in your system and fully integrated into your daily behavior."

So we understand the generic -- there are certain parts of software that are vulnerable and they are. We've studied our portfolios very carefully. We do not see any meaningful exposure to those more susceptible areas. We see deep exposure where we have it to businesses that have the attributes I described where there are actually very significant business processes, data and kind of environmental regulatory constraints, and we see them adopting agentic solutions.

Now as to the specific numbers, remember, we have a variety of different vehicles. And to be clear, the tech-only vehicles actually have the best credit performance. So I want to be clear, we're not negative in any manner on software. However, we also run diversified funds. If you take, for example, our continuously offered BDC, our credit fund, actually amongst the peer group, we have the lowest software exposure.

So again, even we're not a monolith, there's different strategies and different ways to participate in those strategies. But the reality is we don't see any material indication, any change in the accruals or -- non-accruals, asks for amendments. At this point, things look very healthy, which certainly gives us a meaningful -- certainly a very meaningful runway.

Last point I'll say is the PE firms, let's remember, remain active in this space. I want to make sure everyone understands that software remains an area where sophisticated buyers are still highly active because, again, if you have the right software solutions, you're going to benefit from the adoption of AI. And so again, this monolithic view and action people are taking is going to prove, I think quite misguided and it's going to lead to a miss in significant opportunities.

The book is strong. We don't see meaningful losses. We don't see deterioration in performance. And last point, the typical duration of a loan remaining in our books, let's say, a software loan is a few years. So when you have a business that is still growing double digits, and only a few years left and a 70% equity cushion, all we're talking about is do we get our money back. We're not a software company. We're not here to tell you whether the model will be better or worse, whether growth is higher or lower. We're not

a software company. We are an asset manager. We're not a bank. We're an asset manager. We get paid to manage assets and do it well.

And that's what we're doing very successfully. If the software business evolves over time, well, that will be to the maybe a benefit or loss of the equity holders, but we're in a position, we think, to continue to get our capital back and earn a very strong return.

Alan Kirshenbaum
Chief Financial Officer

The only thing I'll add quickly here, Craig, is, as I think we would all agree in this type of market environment, it's important to ground down to the facts, the data, so our publicly traded BDC OTF, 11.4% inception-to-date return, 18% NAV growth since inception, in this case, a positive net gain of 16 basis points since inception. Non-accruals is 0.1%, 0.1% of the portfolio. Average weighted EBITDA is almost \$300 million, 94% leading private equity sponsor backed. And with 185 positions, it's 0.5% on average for a position size.

Operator

The next question comes from Glenn Schorr with Evercore ISI.

Glenn Schorr
Evercore ISI

So I appreciate the comments you made earlier on the past periods of anxiety and how you've met all requests for tenders each of those times. So my question is a little bit on, should this time be different? Meaning, we all got to live through the BREIT experience. And I felt like it trained the wealth channel to understand what semi-liquid or not so liquid means. But you and others have gotten some high redemption requests and have been making good on them. A bit of a confidence in your portfolio, good thing. The flip side is what are we undoing in terms of the teachings we've taught in the channel on how these products are supposed to act, and what investors are going to expect going forward? So I know it's a like it's a big picture thing, but I feel like it's really important because you have lots of products in the channel that we kind of want to smooth volatility over time.

Marc Lipschultz
Co-Chief Executive Officer

Sure. Look, our job is to deliver for our investors, our LPs and our shareholders. And to do that, what that means is considering the results of a tender and what fulfilling those investor requests would do for remaining shareholders. And of course, obviously, by action, we're seeing the preferences of the shareholders that are seeking redemptions.

We've seen these periods of volatility, as you note, we've seen the pattern of behavior where there is these moments of kind of fear and they -- in the face of facts, the facts again, will bear out this time, they tend to fade because performance, in fact, is strong and remains strong.

With regard to fulfilling tender requests or not, you, starting with something like liquidity management and portfolio position is a meaningful consideration. Indeed, there is a structure that has been built with this semi-liquid nature. And to your point, we say investors have been trained. I mean they're aware for sure, as they should be, that there are limits, and that limit might be the 5%.

But at the same time, investor behavior in the presence of limiting people can also be very negative. Remember how long you can get into a world of negative outflows, negative redemption cycles when people feel trapped. And if they're, in fact, really not trapped, what behavior are you conditioning people to understand. Are they -- is it just, look, the hard cap is a mechanical hard cap? Or is the hard cap the proper limitation unless you have the added flexibility to accommodate. And I put it in the latter category. We manage our businesses with very low leverage. We manage with a lot of liquidity. I'd say this with no arrogance. We're very good at both the liability and asset side of the book.

In this instance, when we had these large redemption requests, we have lots and lots of liquidity, still do, lots of liquidity. So there really was no reason to not fulfill investors' request for their capital back. And we see that as actually meeting investor needs, being an investor-friendly and investor-focused firm which we think leads to much quicker recoveries in fund flows and leads to a much better performance as to say, growth in funds flows over time.

Pay attention to your customer, your client, meet their needs. If you can't do that in a manner that would leave the remaining investors and remaining portfolio in an equally or even perhaps better place, then of course, the limit is there for a good reason. But if you have plenty of capital as we did in these vehicles, then we fulfill those requests, and that is client -- meeting client needs, client satisfaction, and that will lead to more wealth growth over time.

Operator

The next question comes from Brian McKenna with Citizens.

Brian McKenna

Citizens JMP Securities

So I had a question on OWLCX. There's clearly a ton of great momentum here. But a few things stand out to me, 80% of these assets are fixed rate, while leverage stands at just 0.2x, yet the strategy generated net returns of nearly 3% in the fourth quarter. So I'm curious, is there an opportunity to expand leverage here, drive even stronger performance over time. And then given the fixed nature of these assets, the fixed rate nature of these assets versus floating rate at the BDCs, are you seeing any incremental demand or an acceleration in flows into alternative credit more broadly?

Alan Kirshenbaum

Chief Financial Officer

Yes. Thank you, Brian. I appreciate the question. Look, we think there's a very big opportunity in alternative credit. We think there's a big opportunity with the interval fund. We're actually really excited. We are in a very short time frame already over \$100 million a month in flows with the interval fund. So we've made really great progress in a short amount of time.

When you think about overall opportunity in the wealth sector, first, let's talk about what does it take to be successful in the private wealth channels. We have large -- because you have to build the foundation and then using that foundation, how do you go out and expand and continue to grow even in environments like this. So we have a large, high-quality, mostly, most importantly, well-performing products. How do you scale with wealth? With well-performing products. That's the key to scaling these products.

Last year, we added two new wealth products, as we all know. ODIT, which is our digital infrastructure wealth-dedicated product and the interval fund, which you just asked about. So we now have three key categories: private real estate, private credit and private infrastructure. And so each one of our wealth products we offer is scaled. We've been able to scale these very quickly, in particular, as I mentioned, the interval fund and ODIT. So all of our products are now of scale, and we're still in the early days. We know adoption rates are low. And so there's no doubt that sentiment and demand will move around based on market conditions. Our expectation, though, is real assets and asset-based finance are of more interest today, and we're in a great position to take advantage of this.

But now from a tactical execution perspective, and we're only able to do these things because we built that foundation. But what we're able to do now is to continue to look at new local feeders. So what did we do in 2025? We added a Japan feeder. We added an

Australia feeder. So we're very focused on continuing to be able to do this into 2026. We are onboarding new distribution partners, whether it's RIA platforms, wirehouses, private banks, independent broker-dealers, so continue to expand our distribution partners for each of our wealth dedicated products and expanding the amount of FAs that sell our products with existing distribution partners. Now because we have large well-performing evergreen funds, as I just mentioned, we're now being placed in many model portfolios. And we expect to be in the forefront of adoption in this regard.

And I guess, lastly, as the rule-making around 401(k)s evolves, we have our partnership with Voya. We're launching our CIT shortly. Our target date funds will be out later this year. Just 2026 will still be more of a billing year than a flows year, but there's a lot of momentum around this build. So we think there's a lot of runway here overall.

Operator

The next question comes from Bill Katz with TD Cowen.

Bill Katz TD Cowen

It's a little bit of a two-parter, so I apologize for violating the one question rule, but I think these are two things that are pretty salient on the stock. First, can you help maybe unpack the disconnection that seems to be happening between the prolific CapEx cycle on the hyperscalers against the opportunity set that you speak to on the digital side? And maybe walk us through how you think about credit risk?

And then the second thing that's been coming up quite a bit is, can you reshape or just go through where you sit today versus your Investor Day goals and how you get to those goals given some of your '25 and now 2026 sort of implied guidance?

Marc Lipschultz Co-Chief Executive Officer

So on the CapEx cycle, most clearly encapsulated yesterday in Google raising their CapEx guidance to \$175 billion to \$185 billion, up from \$93 billion. This is something we've been talking about and is an enormous opportunity. As you know, we are in the premier position and premier provider of capital solutions to the hyperscalers. That capital cycle is only accelerating. Again, we're, sometimes fact and fiction or too much noise. Whether there is or isn't an AI bubble in valuations is secondary to the question of whether people with some of the largest market caps and best credit ratings in the world, a, think otherwise and b, are willing to commit to 15- and 20-year leases, which they are with us,

which is allowing us to deliver outstanding results for our investors in digital infrastructure and in triple net lease.

Remember, our ORENT product, as an example, delivered an 11% return this past year. We just raised the yield on our ORENT product to 7%. 7% exceeds the performance in and of itself of almost every other real estate product out there. So again, all the headlines and noise aside, facts matter, and we're delivering those results. We see that continued super cycle as an enormous opportunity. We know how to structure those leases so that they're iron clad. We have a unique skill to actually build, develop and operate as people want it. We've done it with every one of the big hyperscalers in terms of being their partner and proven we can be a really great partner, captured it perfectly in the Meta transaction.

So this is going to continue to be an area of great opportunity for LPs, investors, by extension for us. You saw the great success we had in raising our latest Digital Infrastructure Fund III, which we already are heavily invested. So we'll be back this year with Digital Infrastructure Fund IV. You saw our real estate fund, which was closed fourth quarter 2024. We're already back, as you know, and well down the path toward our target on our next real estate fund. So we have big successful flagships that are raising faster, deploying faster and very importantly, most important, delivering spectacular results for our investors.

And that makes us a pretty special animal, and last note in the wealth channel, ORENT has become the market leader by every measure. We have raised over the last 2 years, \$5.5 billion with almost no redemptions. This has become a gigantic and market-leading product because it's different. It's better. Back to this question, these are not monolithic answers. Our job is to deliver exceptional results. That's what we've done, and we think we're positioned to do that across the board on our products.

Alan Kirshenbaum
Chief Financial Officer

So Bill, on your second question, as it stands now, we're behind our Investor Day goals. Now remember, we're just 1 year into a 5-year long-term target. But we've seen in the last few months, we've had headwinds in private credit, AI, software. We've seen a slowdown for non-traded BDCs and private wealth flows. We've seen an increase in the tenders for non-traded BDCs.

So what you heard in my prepared remarks is we believe we can show a modest increase in the growth rate of FRE per share in '26 versus '25, and we feel we can accelerate that

growth in '27 versus '26. We also brought our FRE margins above our initial guide of 57% to 58% and we have another guide out there with another modest increase in 2026 versus 2025.

Operator

The next question comes from Crispin Love with Piper Sandler.

Crispin Love

Piper Sandler

On software exposure and the metrics, can you just let us know what needs to happen for you to take losses in your software portfolio and then impacts the net returns to your end investors, just from a standpoint of LTVs, how much is first lien senior secured, remaining maturities there, kind of private equity value destruction that would need to happen ahead of you? And then if there are companies failing, how you think about recoveries. I'm just trying to differentiate between equity and debt here and then what could happen in a draconian scenario because that's what it seems that markets are pricing in today. And then just what is software exposure as a percent of total AUM?

Marc Lipschultz

Co-Chief Executive Officer

So it's a really important question you're asking. And again, let me just be really factual for a moment. The stock -- equity versus debt is kind of an important starting point with all of this getting conflated. Over the last 3 years, the software index is up 23%, okay? We're all reading about and know what happened in the last year. It's down 20% now in the last year, but it's up 23% over the last 3 years. If you think about that as some indicator of the vintage of a lot of big software deals PE firms did, and point of fact, software equities, equities are up. We are a first lien lender in almost every instance when we talk about software. We are, on average, around 30% loan to value.

So what's happened objectively in the marketplace is since the vintage of those transactions, equity values on average are up 23%, or pick whatever number you want. We started at 30%. So now let's answer your question. In order for us to have material losses, I can't describe for you anything based in fact, anything based on any measure of default rates, recoveries that would lead to a material degradation in performance of the funds. There's not a mathematical -- of course, I can do it in math, but there's no relation to any practical statistic that would lead to anything other than sure, you could have a lower return for a year, you could have a lower return for a couple of years. But you have to destroy 70% of the value of every one of these software companies when the markets actually judge them net up.

And again, it's not a monolith. We do a lot of software that -- and very consciously. They're not simple application layer. We're doing things that are business process oriented, have data moats and work in low risk, low error tolerance environments. And that's why, in fact, in the fourth quarter, currently, the companies are actually performing mid-teens growth still.

So I can't really answer it in a mathematical way, because the numbers would be so silly to try to create anything more than, of course, there'll be losses. I want to be clear. We're in the lending business. We have 400 companies. And of course, there's losses. Every quarter, we're going to have companies that go -- get in trouble and companies that get out of trouble. And even trouble doesn't mean we've lost anything. It means they might be struggling. We may have to own them. But that's already built into the calculation. And that's what -- with all that said, we've been running at 8 basis points net.

So the real answer, you are correct is, there's an awful lot of noise about what is the equity of a software company worth. Again, we're not a software company. So I'm not here to really answer that question.

But I can tell you that when you have a portfolio of 100 loans to software companies that are on average growing significantly, generating a lot of cash, have a 3-year tenor on average or so left and are currently in very healthy positions, to get from that to all the value has been destroyed and you have a credit loss is a journey that just doesn't make sense. And that's the way this broad paint brush is being used today. They are big companies that are deeply embedded. Our software companies have hundreds of millions of dollars of average EBITDA that are deeply embedded in Fortune 500 work processes.

And for those who -- you've got to pause and think. There's not just a matter of technology, there's the adoption of behavior. And for those on the call that are thinking Fortune 500 companies are going to take all their software and just rip it out and just say, "I'll just ask ChatGPT," that's simply not the way it works. Don't take my word for it again. We're not technologists, take Jensen Huang's word for it.

Alan Kirshenbaum
Chief Financial Officer

I can answer one part of that mathematically, which is the total exposure of software loans across our AUM is 8%.

Operator

The next question comes from Benjamin Budish with Barclays Capital.

Benjamin Budish

Barclays

Alan, I was wondering if you could talk a little bit more about the FRE margin outlook for the year. I know in Q4, actually, if you could unpack that a little bit as well, it looked like your FRE comp expense line steps down quite significantly. So I'm curious if there's anything going on there to call out? And then just as you think through next year, what are the key pieces of the operating leverage? Is it more cost controls? And I'm curious how you see -- or how you would sensitize that to the potential paths for, especially the non-traded BDCs, where we've seen a couple of months of slower flows, elevated redemptions. It's not quite clear how things are going to shake out. So I know there's a couple of things in there, but just curious to get your thoughts.

Alan Kirshenbaum

Chief Financial Officer

Sure. Ben, I appreciate the question. So in 2025, we brought down expenses. We see the full year that comes together in 4Q when we make our year-end compensation decisions. And we're very focused as a management team on showing progress on the FRE margin. Again, we guided 57% to 58%. We wanted to make sure we came in a little above that. We came in at 58.3%. And as we think about 2026, you're, of course, right, there is uncertainty today. But good news, we have seen a general stability in the daily flows of our wealth products. So that's all the data we have through the first, I don't know, months -- a little more than a month, but it's encouraging that we've seen a general stabilization there.

And the answer for 2026 is simple, we need to have revenue growth outpace expense growth. So we have some levers on the revenue side, and we have some levers on the expense side. And we will use those levers accordingly to guide to that 58.5% FRE margin increase from 2025.

Operator

The next question comes from Patrick Davitt with Autonomous Research.

Patrick Davitt

Autonomous Research

Obviously, a lot of direct lending noise, kind of unknowable where that's going at this point. But it seems like the ABF business did quite well. So can you give us a little bit

more color on what percentage of your total credit AUM is now not Direct Lending? And then maybe help frame what you're thinking about or modeling for growth in that side of the business this year. And then specifically, I think you said OWLCX is at \$1.8 billion. So does that mean it has taken in \$550 million in 1Q? Or is there something else in the bridge from \$1.25 billion in the deck?

Alan Kirshenbaum
Chief Financial Officer

Thanks, Patrick. There's a little debt on that. So I think we've raised about \$1.3 billion in inflows with a little debt that takes us to about \$1.8 billion. We're about 30% of our credit business is away from Direct Lending. So we've diversified quite a bit from just a year or 1.5 years ago, let's say. Alternative credit, I have some interesting stats that I think are worth running through. Alternative credit is definitely a large growth area for us. We've talked about both alternative credit and digital infrastructure. We view those as having at least the same opportunity in terms of future growth. And when I say future growth, I'm talking 3- to 5-year growth as what we saw with our Oak Street acquisition.

So a couple of very quick data points. Let's look, we're now 1 year in on our two acquisitions for Atalaya and for IPI. Let's flash back very quickly to our net lease business, which, as of today, has grown almost 4x revenue growth and almost 4x AUM. And so that's extraordinary growth. I know everyone has seen that. We've talked about that. So 1 year into our net lease business, we acquired Oak Street, we were at \$15.5 billion of AUM. The following year, we raised \$3.5 billion. So that's a low 20s percent growth rate. That's 1 year in. And remember, the first year is usually the hardest. You have integration. You have streamlining everything. You have a lot of work to do.

Now let's flash forward digital infrastructure. We are now 1 year in. So what's the head-to-head comparison? We closed at \$14 billion. We raised about \$3 billion in 2025 in our digital infrastructure business. That is also the same low 20s percent growth rate. So we have already accomplished at least what we've done in digital infrastructure as what we did in net lease 1 year in.

Now let's look at alternative credit. I'm glad you asked specifically about that. Alternative credit, we closed a little more than a year ago. We closed at \$10.5 billion. We've raised nearly \$4 billion since then. So that's a high 30s percent growth off of where we closed our Atalaya acquisition. So we're really proud of what we accomplished here. We see a lot of growth ahead, in particular for alternative credit and digital infrastructure. We have, obviously, Marc mentioned Fund IV in the back half of this year coming out. We

have both wealth products for digital infrastructure and alternative credit, wrapping up ASOF IX, coming out with more fundraise in alternative credit in 2026.

And what we're really excited about is now flash forward 1 or 2 or 3 more years, what does that arc of trajectory? And how does that compare to our Oak Street acquisition. And we still feel as much as ever, the conviction that these acquisitions will be the same or more than what we were able to do with the Oak Street acquisition.

Marc Lipschultz

Co-Chief Executive Officer

And I'll add one point, and then we'll move on. We're also building organic products. Not to be lost in all of this. We mentioned this -- I mentioned this in my comments, our BOSE product, Blue Owl Strategic Equity, GP-led secondaries, which we stood up at a time when people said, I don't even understand what this business is. Which now, as you are well aware, probably, has grown to become a huge share of the overall secondary market, both LP and GP, and a meaningful contributor to the liquidity environment for PE. That's now a \$2.5 billion product that we started from scratch. And that's a product that we see enormous potential for over time. We think that's a way, for example, both the institutions and individual investors to truly participate in the very best of private equity from the very best firms in this multitrillion-dollar industry.

So there's another example of just the growth legs that lie outside of Direct Lending. We still think Direct Lending is going to prove to be an outstanding business. Facts matter. The results are, and we expect continue to be very, very strong. But yes, we're delighted with the performance of asset-backed, and we're delighted with the growth in those businesses. We're delighted with digital infrastructure and with our real estate businesses that are growing dramatically, and we're continuing to turn in great performance in our GP Stakes business. And that -- those are all things that count that will drive that future growth.

Operator

The next question comes from Wilma Burdis with Raymond James.

Wilma Burdis

Raymond James

Could you build a little bit on your earlier comments on fundraising momentum so far in 1Q '26? And just give us a little bit more color on what you're seeing in both the retail and institutional side.

Alan Kirshenbaum
Chief Financial Officer

Sure. Thank you, Wilma. So we included a slide in our earnings presentation where we show kind of the step functions that we've been talking about throughout 2025. And we're really proud of what we've been able to accomplish. You can see meaningful increases here on Slide 6 for each of the last 2 years. We raised \$42 billion in 2025. A lot of momentum on the institutional side, record year for institutional and a record year for wealth.

As we think about 2026, and I commented on the daily flows, so that's as much data as we have right now in the wealth, kind of how do we think about 2026. So we're encouraged by a general stabilization there in the daily flows.

Overall, if I were to pull the lens back here, we have, wrapping up Net Lease VII, wrapping up GP VI back half of this year, Digital Infrastructure IV. As we've talked about, we have our two newly launched wealth products plus our three original wealth products, if you will OCIC, OTIC, ORENT. So when you put all of that together, we can certainly see another year where we put up a similar level in '25 as we did in '26.

Operator

The next question comes from Mike Brown with UBS.

Michael Brown
UBS

So I appreciate all the color on the software side this morning. I guess I'll ask a different question, I wanted to ask on the capital allocation side. So you declared a dividend of \$0.92 for 2026, so a modest bump year-over-year. How are you thinking about the dividend growth from here, along with the payout ratios and maybe just overall capital flexibility going forward?

Alan Kirshenbaum
Chief Financial Officer

Thanks, Mike, appreciate the question. A lot of the same. So modest dividend growth. We're bringing our payout ratio down. We are at 107%, 108% payout ratio for '25. We're bringing that down. It's going to take a couple of steps as we've talked about in the past to bring that payout ratio back to, and this isn't hardwired, but a general ballpark of 85%. We wanted to show some level of modest growth. And we expect to continue to do that as we bring that payout ratio back down to that 85% level. And as I said, over the course of the next few years.

Operator

The next question comes from Brennan Hawken of BMO.

Brennan Hawken

BMO

You spoke to the flexibility and ability to provide liquidity by raising the threshold for OTIC, which was, I would agree, was certainly encouraging. That product was sort of heavily distributed throughout Asia. What I'm curious about is, I know you've got distribution across the world. What does the wealth management AUM look like by geography? Like what portion is U.S. versus Asia versus Europe?

Marc Lipschultz

Co-Chief Executive Officer

So the bulk of our assets and our products is U.S. based in the wealth products. So just to cut to the chase, OTIC is really, in our world, the exception, not the rule, and there's history that we don't need to get into and have time to get into now. But the timing of that launch led to less wide distribution, which led to concentration in Asia. We actually really don't have meaningful exposure in Asia in any of the other products. Really, they are very domestic and the behavior patterns are very different between those products.

Alan Kirshenbaum

Chief Financial Officer

Very little.

Marc Lipschultz

Co-Chief Executive Officer

So very little outside the U.S. and our other products. So OTIC is kind of an exception corner case of its own, I wouldn't read much into OTIC across to other products of ours.

Brennan Hawken

BMO

Okay. Well, I appreciate that. Is it possible to get a number maybe ex OTIC, where that stands because very little is sort of subjective?

Marc Lipschultz

Co-Chief Executive Officer

We'll try to get back to the number. It's a very, very small part. I appreciate that is subjective. We'll get back to you with a number.

Operator

The next question comes from Kenneth Worthington with JP Morgan.

Alexander Bernstein

JP Morgan

This is Alex Bernstein on for Ken. Congrats on the strong metrics that we're seeing in triple net lease, in particular, really strong differentiation.

Touching upon direct lending and originations in particular, we saw that both gross and net moved up this quarter for the second quarter in a row. Similarly, the gross to net conversion ratio improved a little bit, I'm getting in the high 20s percentages. As we zoom out and look at a full year over full year comparison, still seeing the gross, net and conversion are all still lower. I wanted to think through those metrics, how they're evolving relative to historic levels, I think, especially on the gross to net, which I understand historically is a bit higher, competition with the banks, how that looks?

And then maybe how you're thinking about deployment potentially being impacted, or not, by some of the sentiment in the market, especially if we're seeing slower subscription, at least on net basis, growth for the BDCs.

Marc Lipschultz

Co-Chief Executive Officer

Sure. The gross to net, you observed the patterns, I won't repeat all of the facts. We continue to see a very strong pipeline of activity. We are certainly participating in what we think are a lot of great new originations and credits. We're certainly getting at least our fair share. Business is good. I think we continue to build ever deeper relationships with the users of our capital. So right now, it's really more about overall PE activity within Direct Lending. Obviously, as we just talked about, enormous activity in things like the real estate business and in alternative credit away from PE activity.

But it's really about the PE cycle and how much transaction is occurring there. We certainly have seen upticks and we're seeing an uptick there for, in our inbounds, our demand for capital. And I guess the only silver lining of all of this kind of misinformation about credit and misinformation about software and the like, usually, that environment ends up leading to better spreads and a rotation of more product back to the private market because the public markets get deeply disrupted.

So all the indicators would point favorably as far as we can see, but it will all depend really at the end of the day on just how much activity is there in PE world in a given quarter.

Alan Kirshenbaum
Chief Financial Officer

And the only thing I'll follow up with is about 7% -- 6% to 7% of non-U.S. dollars in our other wealth products. So as Marc said, it's a very small number.

Operator

This concludes the question-and-answer session. I'll turn the call to Marc Lipschultz for closing remarks.

Marc Lipschultz
Co-Chief Executive Officer

Great. Thank you very much. We appreciate it. We know that the hour is up and so we will release you to the next activity, except to say, at the end of the day, this was a great quarter. We continue to see very healthy portfolios. At the end of the day, performance is the ultimate measure, not anecdote, and performance is top tick in all of the products that we talked about. So we have a very favorable view going into 2026 and look forward to updating you.

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.