Letter to Shareholders

Overview

Funds from operations (FFO) generated during the quarter were strong, increasing to $1.1 billion compared to $800 million last year. Fee bearing capital continued to grow, leading to higher management fees, incentive fees and carried interest.

We raised $12 billion of capital since our last quarter end, and are now in the midst of raising capital across all three flagship funds. We committed or invested $25 billion into new investments, including the privatization of our retail property company, the acquisition of a pipeline business, and the take-private of a U.S. REIT and a Canadian infrastructure business.

Market Environment

As is often the case, the third quarter was calm followed by increased volatility in October. Despite this volatility, stock markets are still "near" their all-time highs, interest rates remain lowish, credit markets are in excellent shape, and most global economies are doing well. But, while global economies are strong, at some point the strong fundamentals must slow down. With this in mind, we continue to prudently invest our capital, while remaining focused on preparing for this inevitability.

Global capital flowing into alternative assets continues to grow. Our strategies and funds are seeing robust inflows, including flows of $12 billion to date into our next opportunistic real estate fund, $6.5 billion into the first close of our private equity fund, and the initial launch of our next infrastructure fund.

Politics continue to be volatile globally and while not directly affecting our business, there is always some impact. The Brazilian election is now behind us, and many decisions that had been on hold pending the results can now move forward with a government that looks to be very focussed on getting Brazil's economy growing again. This should bode well for our businesses in Brazil.

Performance in the Quarter

Our total assets under management now exceeds $330 billion as we continue to raise and deploy large amounts of capital across our businesses. As a result, fee bearing capital continues to grow across our franchise, which has led to an even greater growth rate in our free cash flow.

AS AT AND FOR THE TWELVE MONTHS ENDED SEPTEMBER 30 (MILLIONS)	2014	2015	2016	2017	2018	CAGR
Total assets under management	$192,863	$220,383	$238,015	$268,987	$331,622	15%
Fee bearing capital	81,738	90,018	110,747	119,860	140,614	15%
Annual run rate of fees plus target carry	1,143	1,399	1,992	2,210	2,700	24%
Fee related earnings (last twelve months)	346	464	690	745	1,218	37%

Despite measuring the performance of our businesses with a focus on the long term, we do use our quarterly reporting to track the progress against long-term objectives. In our asset management business, we continue to grow our fee bearing capital and as mentioned, are currently fundraising for the successor funds in each of our flagship strategies: real estate, private equity and infrastructure. We earn base management fees from these private funds on both committed and invested capital, which provides stable fee revenues. Fee revenues and fee related earnings were over $1.7 billion and $1.2 billion, respectively, for the twelve months ended September 30, 2018, representing 43% and 63% growth, respectively, over the prior period. These increases are largely due to performance related fees and the capital commitments to our latest real estate flagship fund.

The other key value driver within our asset management business is carried interest. For business planning purposes, we expect to generate and realize approximately $10 billion of carried interest over the next 10 years. Annualized target carry before costs based on capital as at September 30, 2018 was $1.2 billion, compared to $860 million one year ago. The $1.2 billion target is made up of $725 million on capital that has been deployed and $470 million on uncalled fund commitments. We generated carry of $1.1 billion during the past twelve months based on actual performance, exceeding our $725 million target on capital deployed.

In addition to our fee revenues, we have over $30 billion of net invested capital alongside our investors. In addition to aligning our interests, this capital provides us with diversified, long-term stable cash flows. Our balance sheet is approximately 85% invested in listed securities—mostly investments in our four listed partnerships. This capital continues to generate an increasing and significant amount of cash flow, now at $1.6 billion annually, based on the current distributions from these investments. These cash flows should continue to grow at 5-9% annually, underpinned by our robust organic growth pipeline, the reinvestment of the balance of the partnerships' cash flow into growth opportunities, and continuous operating enhancements.

Investor Day Overview

We held our 14^{th} Annual Investor Day in New York in September. Once again, we would like to thank those who participated either in person or by webcast. For those not able to attend, the presentation material and transcripts, which provide an overview of our business and key objectives, are available on our website.

The event focused on Brookfield Asset Management (BAM) and each of the four listed partnerships. While a lot of ground was covered, the following is an attempt to condense the key messages into a few paragraphs.

As one of the largest global alternative asset managers, we have continued to expand our franchise and now have more than 500 institutional investors in our private funds. As the rotation of capital towards private assets by investors continues, we plan to increase the size of our flagship funds, broaden our product offering and diversify our distribution channels to meet investor demand. In addition to continuing to deliver strong compound annual returns, the key to success will be our ability to deliver best-in-class service to these investors, which is why we continue to add resources in this area. Should we achieve our objectives, we expect to double the size of our business over the next five years and deliver commensurate growth in the intrinsic value of BAM.

The success of Brookfield has been built on our culture and people. We dedicated a section of our Investor Day presentation to outlining how we have created a culture where our people are encouraged to be collaborative, entrepreneurial and disciplined. By hiring people who thrive in this environment and favoring a "promote from within" approach to succession planning, we have been able to grow the business without diluting the culture. We also emphasized how a long-term compensation structure has created strong alignment of interests and an ownership mentality throughout the company. This results in many of our people staying with us for the long term, with many progressing into a leadership role. Maintaining this culture is a top priority and will be crucial to our success.

As well as outlining the objectives and outlook for BAM, we also provided a detailed review of each of our listed partnerships. A simple synopsis is as follows:

In Brookfield Property Partners, we are focused on completing major office development projects, optimizing the value of our retail portfolio, particularly through redevelopment opportunities and utilizing the liquidity generated from opportunistic investments and core asset sales to deleverage the balance sheet, fund new investments, and return capital to shareholders.

In Brookfield Infrastructure Partners, we continue to rotate capital, selling mature assets and redeploying the proceeds into higher yielding opportunities. The business is on track to complete a number of major acquisitions in 2018, while at the same time advancing organic growth projects.

In Brookfield Renewable Partners, we remain well positioned to grow cash flows and our asset base through our strong balance sheet and deep operating expertise. We are capitalizing on the global shift from fossil fuels to renewable energy, which should offer us increased growth in the years ahead.

Lastly, Brookfield Business Partners profiled recent landmark transactions and highlighted our key competitive advantages such as access to long-term capital, our investment approach and operating focus. We continue to be very excited about the outlook for our private equity group as we continue to scale up our operations.

Cash Generation and Deployment – The Next Decade

Our parent company currently generates nearly $2 billion of free cash annually, and we expect this to continue to grow at a rapid pace. In addition, this does not include any carried interest, which we believe is currently accumulating at over $800 million on an annualized basis and growing. At this point, we are paying out $600 million in common share dividends and have historically been reinvesting the rest in growing our business.

Over the next 10 years, we expect these numbers to continue to grow as our operations and asset management business expands. Our business plans call for roughly $60 billion of cash generation over the next ten years, as follows:

	(BILLIONS)
Fee related cash flows	$ 20
Cash flow from net invested capital	25
Cash realized from carried interest, net	15
	$ 60

While we will continue to invest in our business, we expect that these opportunities will be increasingly outstripped by the amount of cash generated each year. Therefore, our current expectation for deployment of this cash will be as follows:

	(BILLIONS)
Cash investment into listed partnerships and other growth opportunities	$ 10
Return of capital to you through regular dividends	10
Return of capital to you in some other form	40
	$ 60

It is most likely that the return of capital to shareholders will be accomplished through share repurchases but alternatively, the dividend could be increased. For many, the route of share purchases is more tax effective—but more importantly, it has the added benefit of enabling us to be selective about timing, and create additional intrinsic value per share by undertaking repurchases opportunistically. Furthermore, we can also balance repurchases with opportunities to invest in our business directly when they arise.

Price vs. Value

It is often difficult to describe the concept of value investing, and specifically the difference between Price versus Value. We have a very simple example of this within our portfolio, where the markets are, for various reasons, pricing a security at nowhere near Value. More importantly, we view the aberration as an opportunity to be capitalized on—to your benefit.

Price is a function of supply and demand characteristics, which are often influenced by the news of the day and short-term results. This has always been true, but is even more so today with social media, the 24-hour news cycle and all the information available to investors. Value, on the other hand, is the net present value of future cash flows based on assumptions for growth, discounted at an appropriate interest rate. The Price of a publicly traded security is often not the Value of it. The trading Price is known daily. Value takes knowledge and experience to fully define, and is more often an art than an exact science.

The Value of Brookfield Property Partners (BPY), for example, is in the range of $30 per share. We believe it may be greater than that, as the franchise is not valued in this share price. In addition, this Value assumes that all properties are valued at once, and not sold selectively over time to maximize the value of the whole portfolio. In fact, we have regularly sold assets above IFRS values by exploiting this differential. For simplicity, we will use $30 as the Value, which is merely the accounting IFRS value and is the summation asset appraisals provided to investors and others.

Subsequent to the closing of the GGP acquisition by BPY, we have started to buy units of BPY in the open market. To date we have acquired approximately $200 million of units, with the Price to Value discrepancy of approximately $10 per unit. On just this acquisition of $200 million of units, we added $100 million to the Value of the equity in BAM. This amounts to 10 cents for each BAM share. This is without anyone doing anything, so in essence we are picking up dimes for each share of yours for free.

It is clear that Price can be different for many reasons. Our job, however, is to know Value. We have transacted on more properties than anyone globally—for over 25 years. This gives us comfort in our ability to understand Value. Furthermore, we have control over the assets we own, and in virtually all cases can realize the Value as we so choose. A stock market participant likely does not have this benefit, even though he/she may believe in the Value. The issue for the stock market investor is knowing “when” the Value may be reflected in Price. We can only assume that the people sold us their shares at the prevailing Price last quarter do not believe that the Value will be recognized in the market any time soon, have a different view of Value than us, or just decided to do other things with their money. Regardless, to us, this is a stark example of the difference between Value and Price.

We intend to continue to utilize resources within BAM and directly in BPY to capitalize on this discrepancy as appropriate. If these shares are repurchased into the treasury of BPY, the Value of BPY will also increase due to shrinking the share count, and this will be even more compelling for everyone else. Furthermore, with BPY now having completed all of its consolidation activity, this should enable BPY to focus their excess resources on this endeavor.

Over time we expect that by dedicating resources to this goal, we will narrow Price and Value—but if not, annually as we have free cash flow, we will continue to add further Value to the company with no extra work expended.

3-ish

It seems that interest rates in the U.S. are headed into the 3’s for the cash rate out to 10 years; somewhat unusual, but not unprecedented. Fiscal stimulus in the U.S. and a pickup in inflation expectations, as well as the remnants of *quantitative easing* around the world appear to be the primary reasons for this. It is the latter, along with other factors that have created negative cash rates in Europe, and essentially zero rates from one day to 30 years in Japan.

The real question is, what happens next? It appears to us that despite solid U.S. growth, long rates in the U.S. will only break higher if rates in Japan, Germany and the U.K. break higher or there is a break-out in U.S. inflation. However, none of these markets show any signs of doing so in any meaningful way and each has its own local—as well as global—issues.

Furthermore, the U.S. is long into this cycle, employment in the U.S. is almost as robust as it can get, the economy is very strong and it could be said that, despite political rhetoric, “it doesn’t get much better than this.” It is therefore possible that we see low 4% on the 10-year U.S. treasury steepening the yield curve, but our view is that while the cash rate is likely to continue to increase, perhaps into the 3’s, we do not expect much more beyond this.

We think that concern about a period of “high” interest rates might be better placed post the next downturn, and well into the next up market (i.e., 10+ years from now), as then—and only possibly then—will we need to worry about global inflation, versus deflation, that we all have/had been worried about.

As a result, we still believe that alternative assets are the place to be for at least another 10 years. These private assets generate cash flows that are stable, they continue to expand with GDP growth, there is significant positive leverage compared to fixed return assets, and the margin of safety is significant.

Westinghouse

During the quarter we acquired Westinghouse, an iconic U.S. company. The company dates back to the 1800s and was involved in the business of creating electric lights, and eventually became a conglomerate. Over the last 20 years the Westinghouse Electric Company name remained with just one original division: the servicing company for the nuclear industry globally.

Westinghouse today is a very focused company, owning the technology and patents for the Westinghouse brand of nuclear technology, including the most recently developed reactor called the AP1000. Westinghouse, with its 10,000 people, services over 65% of the nuclear plants in the world and provides fuel to many. It does not own nor does it operate any nuclear plants, and as the liability of operating a nuclear plant flows only to the owner and operator, the risks with this business are low, despite some headline risk.

We purchased the company for $4 billion in an unusual situation. The former owner had sought to expand the business and its technology by building two new nuclear plants in the U.S., and by providing the nuclear plant owners with fixed price contracts. Unfortunately, the projects went vastly over budget and the company had to file for bankruptcy. We acquired it through a sale approved by the U.S. bankruptcy court, excluding any construction obligations with respect to the two nuclear power plant contracts. On closing, we financed $3.1 billion of the acquisition price with debt on a seven-year loan in Westinghouse Electric Company and invested approximately $900 million of equity.

Our plan is to re-focus the company on business excellence and grow the utility relationships globally. We service plants in 30 countries today and while the nuclear industry is not growing rapidly, the business is extremely stable and opportunities to enhance the operations are significant. Our beginning EBITDA was $440 million, and we think that within the next few years we can grow that to over $550 million, which will generate strong cash flows for us. If we can achieve this in the medium term, we will be pleased.

We do not intend to get back into the construction business for nuclear plants, but we do intend to work with utility owners who wish to license our technology and will look for creative ways to assist the building of plants globally. For example, servicing plants that commission our AP1000 technology will support our future growth. Furthermore, there may be other ways for us to widen the servicing we do for utilities outside of just nuclear plants as we look to grow the business in a sensible way.

It is early days, but we are thrilled to be invested in this company and will support Westinghouse in being the premier infrastructure servicing company globally.

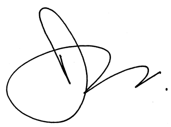
Closing

We remain committed to being a leading, world-class alternative asset manager, and investing capital for you and our investment partners in high-quality assets that earn solid cash returns on equity, while emphasizing downside protection for the capital employed.

The primary objective of the company continues to be generating increased cash flows on a per share basis and as a result, higher intrinsic value per share over the longer term.

Please do not hesitate to contact any of us should you have suggestions, questions, comments, or ideas you wish to share with us.

Sincerely,



J. Bruce Flatt
Chief Executive Officer

November 8, 2018

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This letter to shareholders contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Brookfield Asset Management Inc. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could." Such forward looking information also includes statements regarding potential share repurchases or future purchases of Brookfield Property Partners ("BPY") units by Brookfield Asset Management Inc. or one of its affiliates, as well as the ten-year target for fee related earnings, invested capital, and carried interest. Important information regarding certain assumptions that underlie the ten-year target for fee related earnings, invested capital, and carried interest are contained in the 2018 Investor Day presentation, posted on our website at https://bam.brookfield.com/en/events-and-presentations.

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Brookfield Asset Management to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: investment returns that are lower than target; the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; the performance of the Brookfield Asset Management Inc. shares, the BPY units or the stock exchanges generally; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyber terrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Brookfield Asset Management undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.