Letter to Shareholders

Overview

FFO and total net income generated from operations were both strong. Results look like they will continue to be good for the remainder of 2018 and continued monetization of assets should lead to both gains in income and greater build-up of carried interest during the year.

In the last few months we have advanced or completed a number of large transactions – including the acquisition of the balance of GGP for $15 billion, a large mid-stream natural gas gathering system in western Canada for $3.3 billion, the closing of the acquisition of Westinghouse Electric Company for a total purchase price of $4 billion, the commitment to acquire Forest City Realty Trust and Enercare for $6.8 billion and $2.5 billion, respectively, and the acquisition of a number of solar and wind facilities in Spain for $1.2 billion.

Fundraising also continues to be strong; we have now closed on $11 billion of commitments for our flagship real estate fund, and we expect to have a first close of our flagship private equity fund later this year. And, with recent activity, we expect to start marketing our next flagship infrastructure fund prior to year end. Despite all our activity, we currently have record levels of liquidity across our entire business.

Market Environment

Most of the economies in which we participate continue to be favorable or are strengthening, contributing to strong performance across our businesses. Global equity markets have stabilized compared to the volatility seen earlier this year, on the back of strong corporate earnings and consistent growth in the overall economy.

Institutional investors continue to allocate increasing proportions of their funds to real assets, and we see strong growth in assets under management as a result. This has supported solid valuations for stabilized assets. In this environment we continue to harvest capital, recycling proceeds from assets where we have completed our value creation initiatives. Notwithstanding strong valuations in certain segments, our scale, geographic reach and operational focus ensures that we are able to source and execute acquisitions, allowing us to continually rotate our capital to earn attractive returns. Our growth is also supported by favorable global lending conditions. Bank liquidity is very strong and the capital markets remain open, with credit spreads having stabilized following volatility earlier in the year. This environment has enabled us to finance assets at low, long-term fixed rates.

We are still in a period of historically low global interest rates, despite the narrative of a “rising interest rate environment and increasing inflation.” Owning real assets means that we are primarily focused on longer term rates which have remained low, particularly outside the U.S. Specifically, the 2, 10 and 30-year Japanese bonds are essentially zero. Similarly, the 2, 10 and 30-year German bonds are trading at -0.59%, 0.41% and 1.1%, respectively. The 10-year U.K. bond is at 1.33% and the 10-year Canadian bond is at 2.37%. In each of these economies, low interest rates are expected to persist for the foreseeable future. Not only do these rates keep borrowing costs low in these regions, but in today’s global capital markets with investors seeking yield, they also keep U.S. rates lower.

Growth in the U.S. continues to be strong and interest rates are increasing faster than any other country, yet the 10-year bond continues to trade below 3%. We believe the outlook continues to reflect steady, modest rate rises and we expect the 10-year bond to level out in the range of 3.5% by the end of 2019. The slope of the yield curve continues to flatten, with the spread between 2 and 10-year U.S. treasuries at 30 basis points, implying very limited expectations of interest rate increases. With 50% of our assets in the U.S., we are well positioned to benefit in this environment.

In this regard, our revenues for real assets typically outpace incremental interest costs in an inflationary period – either because of contractual rights, or our ability to either make operational improvements or expand the operation. Second, our debt is locked in at long-term fixed rates, so for the most part we have "hedged" the cost side of the equation. Our leverage is at conservative levels, so we therefore have little refinancing risk. Third, the increase in revenue should more than offset adjustments to discount rates in our asset valuations. We may experience a temporary lag where the increase in discount rate exceeds revenue growth, but this should be limited to the very short term, if at all.

As further interest rate increases are expected to be modest, we expect our invested capital to continue compounding at an annual rate of 12% to 15%. We also expect institutional investors to continue shifting capital into real assets, which provide less volatility and more diversification compared to traditional equities, and higher yields compared to fixed income.

Performance in the Quarter

Our total assets under management now exceeds $285 billion as our asset management activities continue to expand at a rapid pace, resulting in very substantial and growing free cash flow.

AS AT AND FOR THE TWELVE MONTHS ENDED JUNE 30 (MILLIONS)	2014	2015	2016	2017	2018	CAGR
Total assets under management	$ 191,803	$ 217,948	$ 243,479	$ 257,538	$ 287,025	11%
Fee bearing capital	81,233	93,955	108,312	117,254	129,302	12%
Annual run rate of fees plus target carry	1,119	1,430	1,950	2,150	2,590	23%
Fee related earnings (last twelve months)	341	436	639	732	1,084	34%

Fee related earnings for the last twelve-month period increased by 48% to $1.1 billion. This was supported by 10% growth in fee bearing capital, which reached nearly $130 billion at quarter end. We raised another $600 million for our core real estate open-end strategy and our real estate mezzanine lending open-end strategy, as well as $2 billion in our public securities business, which now has fee bearing capital of over $16 billion. Our flagship funds also continue to progress well, including our latest flagship real estate fund, which has closed $11 billion of commitments to date.

The continued growth of our asset management business and fee bearing capital provides us with cash flows that are: diverse, covering our different fund strategies and publicly listed partnerships; sticky, as the capital is invested across durations ranging from our private funds of 10+ years to our permanent capital vehicles; and fast growing, as we increase our fee bearing capital at a considerable rate. Over the last five years, fee related earnings have grown at a compound growth rate of 34% and we believe we can grow and achieve a rate of more than 20% over the next five years.

Unrealized carried interest was $2.5 billion at quarter end, and we expect to recognize about half of this in the next few years. Our current carry eligible capital of $47 billion means that our target carried interest, net of costs, is now $800 million annually based on target returns. There will be a timing lag between when this carried interest is generated and when it is realized, as we wait for claw back provisions to be met before recording it as income in our financial statements. We will continue to report our progress against this target in our supplemental information.

The total equity across Brookfield is approximately $80 billion and the equity market capitalization for BAM common shares is currently approximately $40 billion. The $40 billion can be broken into two components: our net tangible invested capital, and our asset management business.

Taking IFRS values for our non-listed assets and real estate business and using stock market prices for our other listed investments, the total tangible invested capital was $40 billion at the end of the second quarter. After deducting $10 billion of long-term debt and perpetual shares, net invested capital was $30 billion.

This scenario implies that $10 billion is being attributed to our asset management business. In our view, this represents an extremely low value, based on the underlying financial metrics and the way most investors value similar businesses. For example, this value represents 10 times our current estimate of annualized fee related net earnings (approximately $1 billion), with no value attributed to the gross carried interest of $8 billion that we stand to earn over the next 10 years if we achieve target returns. This is also based only on funds raised to date, with nothing attributed to our ability to grow our franchise.

Stated differently, if our shares reflected a 20 times multiple for fee related earnings and a 10 times multiple for net annualized carry on existing funds, this would add $18 billion of value, or $18 per share. This is close to a 50% increase over current stock market price. And this, still has no value attributed to the growth in our future franchise, including larger and new funds.

The Miracle of Compounding

One of the great miracles of modern finance is the compounding of returns. This is, of course, easy to understand when dealing with interest based returns, but harder when looking at businesses. The miracle, though, works exceptionally well with a business that compounds at returns greater than 10% – and exponentially when it compounds at greater than 15%. As shown in the chart below, compounding at high returns over a long period means that the size of capital earned can be very substantial. The trick is to not lose confidence on the way – and, of course, pick good businesses.

We would note two other important points. The first is that a loss of capital part way through a compounding period can be very detrimental to returns. The second – which can be even more detrimental – is dilution to shareholders through share issuance. A company that issues shares must do so at the right time, and for equivalent value. If not, it can be very damaging to returns. Many of you will know companies that had to issue a large number of shares during the financial crisis of 2008/2009. While market capitalizations of many of the businesses have recovered, the dilution from the share issuance has all but destroyed the per share value. While companies in these circumstances can recover, their share prices seldom do.

In looking at our table below, you will notice the strong overall returns earned over the years. One line worth focusing on is the increase in shares outstanding, which has been steady for close to 20 years. While many factors have contributed to the success of our compound results, the lack of having to issue shares, and in particular not having to do so at inopportune times, has been critical to the long-term compound returns. You will note that all the other statistics compounded at about 15% to 20% over the last 20 years, but our share count has grown at less than 1%. This has been one of the main reasons for this success.

PER SHARE	**1999**	**2003**	**2007**	**2010**	**2014**	**2018[1]**	**Compound % Growth**
Book value[2]	$ 2.98	$ 3.46	$ 7.76	$ 14.73	$ 20.50	$ 24.29	12%
Market price	2.67	6.03	23.78	22.19	33.42	40.54	16%
Market price plus dividends[3]	2.67	7.01	29.31	29.78	50.22	65.61	19%
FFO[2,4]	0.26	0.63	2.07	1.58	2.11	4.01	16%
TOTAL (MILLIONS)							
Assets under management	$ 14,010	$ 23,473	$ 94,340	$ 121,558	$ 203,840	$ 287,025	18%
Balance sheet assets	14,010	16,315	55,597	78,131	129,480	199,168	15%
Total book equity	3,613	6,401	11,770	29,192	53,247	79,170	18%
Fees and annualized carry	–	115	335	545	1,204	2,590	24%
FFO for common shareholders[4]	267	624	1,907	1,463	2,160	4,070	16%
Shares outstanding (# millions)[2]	905	921	917	924	983	1,004	1%

1) As at June 30, 2018
2) Adjusted to reflect three-for-two stock splits effective June 1, 2004, April 27, 2006, June 1, 2007 and May 12, 2015
3) Assumes cash and share dividends were reinvested. Adjusted for stock splits.
4) Represents last twelve months

The miracle of compounding not only works with returns, but with an overall business. The consistency of our approach to business and the way we deal with our people accrues to the long-term benefit of our franchise. Our business is therefore much stronger today than ever before. More investors and businesses are becoming familiar with Brookfield and what we can do with them, as well as our reputation for fair dealing and our transactional advantages of scale, global platform and operating capabilities. It is the compounding of all of these that enables our financial returns to grow in excess of the returns that might otherwise be achieved with the low-risk type of assets in which we invest.

Our core liquidity is at the highest level ever. In addition, with our annual free cash flow at BAM now over $2 billion and growing, with very few obligations to support, over time we intend to devote an increasing amount of our free cash flow to returning capital to shareholders. Our goal in the medium term is to shrink the shares outstanding to under what we had in 1999, while adding value to each remaining share as a result of acquiring the shares at substantially less than what we believe to be intrinsic value. This will not be accomplished overnight but will stand as a medium-term goal for us, of course all subject to capital market conditions and other opportunities to deploy capital that may become available from time to time.

The Sun is Getting Brighter

We are in the midst of a 50-year long, once in a many generation, transformation of the global power grid, from 100% fossil fuels to a good portion being renewables. We are still in the early stages, and this transformation will require very substantial capital investment over multiple decades. We estimate that replacing a meaningful part of the non-renewable capacity in our core markets with wind and solar will require over $10 trillion of investment.

This transformation is now escalating, as solar and wind power have moved from a formerly marginal resource requiring government support, to the lowest cost, easiest to build, provider of bulk power. This shift from new technology to established infrastructure has occurred at a rapid pace due to a combination of environmental regulation, subsidies, and more recently, cost declines which in the last five years have made some traditional forms of thermal generation obsolete, and therefore created widespread adoption of renewables.

Over $1 trillion of capital has been invested into renewables in the last five years, and over 1 million megawatts of new renewables have been added to the global power markets. This is equivalent to the entire U.S. electrical supply being replaced by renewables in the last five years. More importantly, despite this, renewables still account for less than 30% of global power supply, of which wind and solar account for less than 8%. Accordingly, even if the world maintains its current $200-$300 billion of annual investment into renewables, the level of penetration will remain modest for years. As a result, the opportunity to invest should be substantial for many decades.

In spite of the growth of the renewable power market, investing has been highly competitive. The numerous subsidies offered by governments, combined with low interest rates and sustainability initiatives have attracted all forms of investors. We therefore continue to be patient and strategic in building our business, but believe the prospects for growth are better than they have ever been. Furthermore, subsidies were never a sustainable way to build a power grid, but over the long term as they are eliminated, opportunities will favor those with operational expertise.

Over the last 20 years we have grown our operating capabilities, built a global business, and have been patient in deploying capital. Even so, over the last five years we have invested over $10 billion of capital into new opportunities globally, resulting in a portfolio of 8,000 megawatts of utility scale hydro, 6,000 megawatts of wind and solar facilities, and 3,000 megawatts of storage through our pumped hydro and battery facilities. In addition, we are one of the largest owners of distributed solar generation in the U.S. and are expanding this capability to key markets around the world.

From an operating perspective, we now have scale in North America, Latin America, Europe, China and India. This diversity of technology and geographic presence will help us rotate our capital across markets, looking for the best risk-adjusted investment opportunities. Moreover, our ability to operate plants, develop new projects and find customers should allow us to surface significant value from our existing portfolio over the long term.

GGP

Last month, we received shareholder approval to combine the balance of GGP Inc. into Brookfield Property Partners ("BPY"). At closing, later in August, we will complete the last major initiative post the launch of BPY. These initiatives included the privatization of five listed companies, and with all of these now complete, we believe that we are in a strong position to focus our efforts on value enhancements in the business, and on the trading price of BPY. Given the scale of our business, our vast access to institutional capital, and BPY's now large equity base, BPY has no need to issue additional equity for the foreseeable future. Furthermore, if we continue to trade at discounts to tangible value, we will use our resources to repurchase shares, adding further to its intrinsic value.

To complete the GGP transaction, we will issue approximately $6 billion of BPY shares and will pay GGP shareholders $9.2 billion of cash. This cash was borrowed on a five-year loan, but on closing approximately $4 billion will be repaid with asset sales in GGP, and with funds from one institutional investor who will own a portion of the overall retail business with us. The balance of $5 billion will be repaid with a combination of further sales of interests in other centers to investors, and refinancings. While a lot of effort, we have completed the largest part of this financing plan and the risk we took in launching the bid has now been mitigated.

We think that this transaction, 10 years from now, will prove to have been transformational to our real estate business. We are acquiring 125 incredible parcels of land in major cities in the U.S. Along with this land, which will be developed into many tens of thousands of multifamily apartments and condominiums, hotels, industrial warehouses, office properties, self-storage and other uses, we are acquiring a 123 million square foot, 94% leased retail business which generates EBITDA of $2.2 billion. Our plan is to redevelop this land into these other real estate uses, concentrate the retail business on the highest quality centers, and integrate our retail offering with an online presence. All the while, the core retail business should generate substantial free cash flow for investment into these other real estate businesses.

The current tone of investor sentiment is very negative on anything related to retail. It is exactly that which afforded us the opportunity to privatize GGP. We believe that, like all current day major news stories, some of the story is correct, but we think that much of it is overblown. As important, we believe we have a large margin of safety, since the assets we are acquiring have immense real estate opportunities beyond GGP's traditional retail business. As a result, even if we to some extent are off with our retail projections, the real estate development opportunities should easily make up for that. The best case is that we are right on our projection for high-quality retail, we execute on our ability to integrate this retail offering with online sales, and we redevelop many of the tracts of land into multifamily apartments and other new uses. In this case, the deal could be extremely successful over the longer term.

Long-term Value Creation Requires Hard Work

We create shareholder value in a number of ways but often it requires contrarian thinking and hard work. Once in a while we get lucky, and our timing and execution is perfect. Other times we have to dig in and work hard to turn an investment around. An example of this is our investment in Natural Gas Pipeline Company of America LLC ("NGPL").

We initially acquired a 27% position in NGPL through Brookfield Infrastructure Partners as part of a larger recapitalization transaction that we completed at the height of the global financial crisis in 2009. While many of the other investments acquired in this transaction performed exceptionally well following the financial crisis, this business faced a number of headwinds – including a regulatory review that reduced the rates it could charge to customers, and a natural gas market that had fundamentally shifted to a position of oversupply, adding further pressure to pricing. By 2014, revenue had declined substantially and with its debt ratings downgraded, NGPL was faced with a challenging environment to refinance its $2 billion of near-term debt maturities.

Despite its poor financial performance after we acquired our stake, and contrary to common opinion, we viewed NGPL as a high-quality asset strategically located and positioned to benefit from the changing dynamics of the North American natural gas market. We were confident that we could fix the issues. To this end, with a partner, we acquired 100% of NGPL and created a 50/50 joint venture with a multi-year strategy to unlock value.

Together we recapitalized the business with $1 billion of new equity, then refinanced the company's debt. We re-aligned management with a plan that focused on generating value over the long term and established a simple governance framework that allowed for efficient decision making on key business matters. Lastly, we came up with an operational plan that included various capital projects that expanded capacity and reversed flow on several sections of the pipeline to facilitate new demand from customers to flow gas north to south.

The culmination of these efforts is that NGPL has turned around and cash flows have increased 20% in the last few years to almost $400 million. We also put in place longer duration capacity contracts to reduce our risk to volume fluctuations. This all led to a recapitalization plan last year that concluded with a successful $1.4 billion long-term bond issuance. With this issuance, NGPL's debt rating increased nine notches (almost unprecedented), recently receiving an investment grade rating, and the annual interest costs declined by $130 million due to the lower rates and reduced leverage.

We also identified over $500 million of expansion projects backed by long-term contracts with high-quality customers. Some of these are already in service, or will be soon. All in all, we expect annual EBITDA of approximately $500 million within the next few years, which represents a 50% increase since we started our re-work of the asset.

Bottom line: by doubling down on a good business and by putting our operational and financial skills to work, together with an aligned and high-quality partner, we turned around performance and set the foundation for a great future at NGPL. This success was due to a number of things, but most importantly to a lot of hard work.

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

August 9, 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."

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: 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; 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.