

## **CORPORATE PARTICIPANTS**

Suzanne Fleming, Managing Partner, Branding & Communications

Brian Lawson, Chief Financial Officer

Bruce Flatt, Chief Executive Officer

## **CONFERENCE CALL PARTICIPANTS**

Cherilyn Radbourne, TD Securities

Ann Dai, KBW

Dean Wilkinson, CIBC World Markets

Mario Saric, Scotiabank

## **PRESENTATION**

### **Operator**

Welcome to the Brookfield Asset Management First Quarter of 2018 Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star and zero.

I would like to turn the conference call over to Suzanne Fleming, Managing Partner, Branding and Communications. Please go ahead, Ms. Fleming.

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### **Suzanne Fleming, Managing Partner, Branding & Communications**

Thank you, operator, and good morning. Welcome to Brookfield's first quarter 2018 conference call. On the call today are Bruce Flatt, our Chief Executive Officer, and Brian Lawson, our Chief Financial Officer. Brian will start off by discussing the highlights of our financial and operating results and Bruce will then give a business update for the quarter. After our formal comments, we'll turn the call over to the operator and take your questions. In order to accommodate all those who want to ask questions, we ask that you refrain from asking multiple questions at one time in order to provide an opportunity for others in the queue. We'll be happy to respond to additional questions later in the call as time permits.

I would like to remind you that in responding to questions and in talking about new initiatives and our financial and operating performance we may make forward-looking statements, including forward-looking statements within the meaning of applicable Canadian and U.S. securities laws. These statements reflect predictions of future events and trends and do not relate to historic events. They are subject to known and unknown risks and future events may differ materially from such statements. For further information on these risks and their potential impact on our company, please see our filings with the securities regulators in Canada and the U.S. and the information available on our website.

Thank you. And I'll now turn the call over to Brian.

**Brian Lawson, Chief Financial Officer**

Thank you, Suzanne, and good morning to all of you on the call.

So, let me start out by saying that we're very pleased with the results for the quarter. In particular, they highlight continued fund growth and expanding product offering, a disciplined approach to recycling capital, and strong growth in the FFO generated by our invested capital, and that represents very good progress across the board. We reported record FFO and net income over the last 12-month period and looking at the most recent quarter in particular, funds from operations, or FFO, totalled \$1.2 billion, \$1.16 per share, and that's a 73% increase over last year. Net income was \$1.9 billion for the quarter, \$0.84 per share attributable to Brookfield shareholders, and that's more than triple the amount of the last year. So, both FFO and net income benefitted from a significant increase in fee-related earnings as well as contributions from new investments and gains from asset sales in the quarter. In addition, net income also reflects overall valuation gains within our real estate portfolios.

I'll now cover some of the highlights within FFO. Fee-related earnings were \$343 million in the current quarter, and that's double that of the prior year, due in large part to a large level of performance fee income and also continued growth in fee-bearing capital. Fee-bearing capital now stands at \$127 billion, and that represents growth from both our flagship private funds as well as newer product offerings and an increase in the capitalization of our listed issuers. Strong investment performance within our private funds increased the amount of unrealized carried interest by \$337 million in the quarter, and this brings us to \$2.4 billion of accumulated carried interests before costs, and we expect that to be realized in FFO over the next few years as these funds move further into their distribution phase, selling assets and distributing the proceeds to investors in the funds. The carry that we've generated to date is primarily from older vintage funds and those tend to be smaller in size than the more recent funds that we've been raising, which are much larger. And, as they add to our product offering, our carry eligible capital base will continue to increase and so we expect to see meaningful growth in the amounts of carried both being generated and realized.

I'll now turn to invested capital. Excluding disposition gains, FFO from invested capital increased by 14% for the quarter. We benefitted from operational improvements, contributions from acquisitions, higher generation within our renewable power operations, particularly in Brazil, and higher pricing in some of the industrial businesses within our private equity operations. In addition to that, disposition gains contributed nearly \$500 million in the quarter, as we completed several significant asset sales, including our Chilean electricity transmission business, roughly four times our invested capital, and several core office buildings, including Bay Adelaide Centre's west and east towers in Toronto.

One of the characteristics of our business that we've highlighted more recently is the significant free cash flow that we're generating in the business. The annual run rate for fee-related earnings is now roughly \$1 billion and we also received approximately \$1.5 billion of annual cash distributions from our invested capital. So, after deducting roughly \$500 million for interest expense, preferred share dividends, and corporate costs, we are generating approximately \$2 billion of cash flow at BAM that is available for distribution as common share dividends or reinvestment, either in the business or to buy back stock. And to remind you, we have very few capital requirements at the corporate level, and this positions us very well to use our cash flow to support larger fund transactions, providing bridge capital and seeding new fund products.

We continue to maintain a high level of liquidity. Our core liquidity stood at \$32 billion. And that includes fund commitments, financial assets, and credit lines. And this provides us with very substantial capital to pursue attractive opportunities at scale.

Finally, I am pleased to confirm that our Board of Directors has declared a \$0.15 per share quarterly dividend payable at the end of June.

And with that, I will hand the call over to Bruce.

**Bruce Flatt, Chief Executive Officer**

Good morning and thank you everyone for joining.

As Brian noted, our cash levels, our core liquidity, and our dry powder in our funds were at their highest levels ever at our franchise. Some of this, of course, is because our business is larger than it's ever been, but it is also because we're continuing to harvest cash from investments while investing at a conservative pace. Dry powder and core liquidity in the business is close to \$30 billion and currently growing at all levels, being our funds, our partnerships, and at the corporate level.

Our asset management activities continue to expand at a rapid pace, resulting in substantial and growing fees to BAM. Total assets under management was over \$280 billion this quarter. I would point you to a chart in the quarterly letter, and we normally put this chart in, but the chart this quarter shows the powerful leverage of the franchise, which assets under management went up 10%, which resulted in fee-bearing capital going up 12%. More importantly, growth in the last five years has led to a rate of total fees being up 24% and, in fact, our fee-related earnings after costs up 35%. So, as you can see, as the funds get larger the margin expansion to the bottom line is more significant.

Fee-related earnings surpassed the \$1 billion for the 12-month period, which was an increase of 56% over the prior last 12 months, and fee-bearing capital reached \$127 billion at quarter end and continues to grow. As we continue to add funds without the commensurate return of the same amount of capital, the stacking effect on our earnings continues to increase. This growth in capital includes our new private fund fee-bearing capital from the first close of our latest real estate opportunity fund and we added \$4 billion of fee-bearing capital in our public securities business with the acquisition of a small infrastructure manager. This business purchased also added retail distribution capabilities and an experienced investment team.

We were also active in fundraising and continue to see an expanding investor appetite for a number of other funds in addition to our flagship products, which are largely focused on adding income alternatives for clients. This is focused on core, core plus, and credit products and during the quarter we raised additional capital for our core plus real estate open-ended fund, our real estate mezzanine lending open-end fund, and our infrastructure credit fund. We also launched fundraising for two additional perpetual fund products, a core infrastructure fund and an Australia core real estate fund. In our flagship funds, which are large private funds, we continue to invest and have \$22 billion of uncalled third-party commitments available to deploy, positioning us well to respond to opportunities, and with fundraising in the market, that number should continue to grow.

We also continue to try to explain better to our shareholders how the value of the business grows and over the last couple of quarters, as Brian mentioned, we've included economic net income, referred to as ENI, as a performance measure in our asset management segment. This measure is the sum of the fee-related earnings, which are cash paid to us, and also the unrealized carried interest generated in a given period, and while we use FFO as our primary measure of performance, we do believe that ENI is a useful measure for investors to assess the total value created within our funds in a period and the potential for future FFO as that unrealized carry is converted into cash flow and realized.

Both FFO and ENI include fee-related earnings, but FFO, of course, includes only the realized carried interest, whereas ENI has the unrealized carry in. And, as a reminder, we only recognize carry in the financial statements once we have a sufficient insurance that it's no longer subject to future investment performance, which usually means the sale of assets. And this is different than most alternative managers that mark-to-market carry within their income statements. Unrealized carried interest represents the amount of carried interest based on investment performance to date to the best of our knowledge and can be used to track progress towards future carried interest realizations, which then go into FFO. And changes in unrealized carried interests provide investors with an indication as to how we're tracking to the eventual realizations, which typically occur in the later years of funds.

Lastly, as we raise more capital, our carry eligible capital base is also increasing at a pretty fast pace. We almost doubled the carry eligible capital from \$25 billion in 2015 to \$40 billion in 2016, and this continues to grow and that eventually gets captured in our ENI.

So, all in all, a pretty successful quarter and we continue to track our results and, operator, with those remarks, I'll turn it over to you and Brian or I would be pleased to take any questions, if there are any.

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## QUESTION AND ANSWER SESSION

### Operator

If you would like to ask a question at this time, please press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. We will pause for just a moment to compile the Q&A roster. Your first question comes from Cherilyn Radbourne with TD Securities. Please go ahead. Your line is open.

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### Cherilyn Radbourne, TD Securities

Thanks very much and good morning. Just in terms of the \$2.4 billion of gross unrecognized carry that you've got, could you talk about how you're tracking versus the expected realization profile that you've presented to us over the last couple of investor days?

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### Brian Lawson, Chief Financial Officer

Sure, Cherilyn. It's Brian. So, I think what you may be referring to is we indicated that the amount of carry we would expect to generate in the funds over the next eight or ten years and receive would total around \$8 billion to \$9 billion, and that's based on the expected return profile of the funds. And that still holds. In fact, the number has probably gotten a little larger. What we're talking about in terms of the \$2.4 billion is what has actually generated within the funds based on investment pro forma to date. So, if we wound up all the funds as of today, we would collect \$2.4 billion of gross carry. Based on the maturity profile of those funds, we would expect half of that to come in over the next three years, and that's probably, realistically, going to be more 18 to 36 months, but if we accelerate a few things it could come sooner. So that would be roughly \$1.2 billion over the next three years.

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### Cherilyn Radbourne, TD Securities

But, big picture, you're tracking somewhat ahead of that \$8 billion to \$9 billion cumulative carry that we've been talking about.

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### Brian Lawson, Chief Financial Officer

Yes – that we would have posted, at Investor Day last time.

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### Cherilyn Radbourne, TD Securities

And then a second question. I believe you've also recently launched a venture capital strategy, so I wonder if you could just talk about why you felt you needed a venture offering and how BAM's value-oriented investment strategy kind of overlays against a venture strategy.

**Bruce Flatt, Chief Executive Officer**

So, it's a relevant question, because you wouldn't expect us to be doing venture investing within a real asset strategy, but we found two things and the first one is that there are many real assets that we have within the \$300 billion of assets that we have that now can be advanced by new technologies that are coming into use. And because of that, we can therefore offer our platforms that we have for companies to test in a much more effective fashion than they would otherwise have if they went out, because we have some very large businesses where technology can be deployed.

Secondly, and because of that, companies that are in their early stages, and we're not doing things in the early, early stage but in the earlier parts of their formation, will accept investments from entities like our ourselves if we can bring them something more than just money. There are many people who want to invest in venture things that just have money. What we have is something else. So, the idea of the pool of money that we put together is that it will only invest in venture strategies revolving around the real asset investment businesses that we have where we can be advantaged, and the companies can be advantaged by associating with us.

The initial pool of capital is 100% Brookfield Asset Management capital. Eventually, our intention will be to turn this into a business where we can bring our clients into this to also benefit from the things that we're doing, but for the initial stages we're working with the team and honing the strategies just with our own capital from Brookfield.

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**Cherilyn Radbourne, TD Securities**

Thank you. That's my two.

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**Operator**

Your next question comes from Ann Dai from KBW. Please go ahead. Your line is open.

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**Ann Dai, KBW**

Thanks and good morning. Bruce, I have a question for you about the partnership with GLP to create the solar grid using their industrial rooftop space. I guess I'm just curious, you know, how long term do you see this play, how big can it be over time, and do you feel like this type of partnership is replicable elsewhere geographically or in other asset classes or do you really feel like it's unique to this situation?

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**Bruce Flatt, Chief Executive Officer**

I'll take the last portion of the question first and just say that we have many partnerships around the world with different entities and obviously all of our sovereign and institutional partners are in a different form of partnership. So, where it makes sense, we partner with other people. We felt it in the situation, as did our partner, felt that the two of us together could make a meaningful contribution to the business. And we have a lot of renewables experience, they happen to be experts in China, and therefore we felt together, one plus one hopefully made three. So we look for situations like that where we bring experience and we will do things with partners if it makes sense.

With respect to the size of the business, look, we think in the initial stages it's probably \$500 million to \$1 billion of capital put to work, but eventually, there are a lot of rooftops in China and they need distributed generation on the east coast because a lot of the power is away from the east coast and therefore we think it could be larger longer term, but we'll have to see how the initial stages go. That's sort of what we've set out for the business plan for it in the first stages.

**Ann Dai, KBW**

Okay. Appreciate the color. And also, earlier in your remarks, just moving on to the asset management side of things, you mentioned the new perpetual fund product, the core infrastructure and Australia real estate. Can you just give us a little color around the potential for fundraising given the size of each of those markets and then, you know, are these the kinds of the first group strategies that you had looked to roll out in the perpetual fund structure or is there more behind it?

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**Bruce Flatt, Chief Executive Officer**

So, as you know, we have a core-plus open-ended real estate fund where we're buying real estate assets in the U.S. We've now launched a product for core infrastructure, which are infrastructure assets, and what we found is there's many assets out there that our clients would love to own as an alternative to fixed income but don't meet the thresholds of return that we get in our more opportunistic funds. So the infrastructure fund will target that. And many of the credit products we have can also be launched in open-ended structures. And behind those will be others, possibly as renewables, possibly adding other countries to it. So we did the first one in the United States. We're now doing an open-ended structure in Australia. We could eventually launch Europe, Asia, and other countries. So we'll play it as we go. We can only market so many things at once to our clients and only focus on so many things, but there's a big appetite for these types of products as fixed income alternatives.

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**Ann Dai, KBW**

Okay. Thanks so much.

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**Operator**

Once again, if you would like to ask a question, please press star then the number one on your telephone keypad. Your next question comes from Dean Wilkinson with CIBC World Markets. Please go ahead. Your line is open.

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**Dean Wilkinson, CIBC World Markets**

Good morning, guys. Just looking at the year carry eligible capital and how that's going to pencil out over the next couple of years. Would it be fair, Brian, to say that that number, on an annualized basis, is likely to double into the \$2 billion range?

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**Brian Lawson, Chief Financial Officer**

Sorry, in terms of the amount of unrealized carry that we generate each year?

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**Dean Wilkinson, CIBC World Markets**

Yeah.

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**Brian Lawson, Chief Financial Officer**

Yes, over the next period of time, correct. Really for two reasons. One is the amount of eligible carry within the funds will grow with the larger funds, but perhaps just as importantly, particularly over the next few years, as some

of those larger funds that we've raised more recently get more fully invested and as they get further along into the investment period, then you really begin to see the capital being put to work and generating that investment performance that gives rise to unrealized carry. So there's really two factors working there.

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**Dean Wilkinson, CIBC World Markets**

Okay. And as you look to increase the amount of carry eligible capital, would that be geared more towards the opportunistic or the credit or would it be sort of a 50-50 split, kind of like it is now?

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**Brian Lawson, Chief Financial Officer**

So you tend to get a larger carry component in the more opportunistic and value-add type funds as opposed to the core, core plus, and credit-type funds. So, yes, it would be skewed a bit more towards those strategies.

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**Dean Wilkinson, CIBC World Markets**

To the opportunistic. Okay. That's it. Thanks, guys.

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**Brian Lawson, Chief Financial Officer**

Okay. Thanks very much, Dean.

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**Operator**

Once again, if you would like to ask a question, please press star then the number one on your telephone keypad

I will now hand the call back over to—oh, we do have a question with Mario Saric, Scotiabank. Please go ahead. Your line is open.

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**Mario Saric, Scotiabank**

Thank you. Just caught the wire there. It was interesting to see the commentary in the letter or in the press release with respect to the composition of your L.P. base. It looks like you're gaining a bit of traction with pension funds and with L.P. investors outside of North America. I was just wondering if you can maybe provide a bit of color in terms of what's driving kind of the increased pension fund participation in your funds and how much runway do you think you may have when you look at, let's say, your pension fund participation in your funds relative to a broader benchmark in the asset management business.

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**Bruce Flatt, Chief Executive Officer**

So I'll try that, and I'll just say that, in general, when you look at our funds, the private funds are largely sovereign funds, institutional pension funds, and insurance companies globally. And I would say the underlying considerations are twofold. One, these funds keep growing very significantly with the amount of capital that are in them, sovereign plans and pension funds, because they keep compounding away, and obviously the last six, seven years have been good for that as, the returns have been good, so the numbers are just getting larger and larger. And secondly, the allocations are getting bigger to real assets. And the reason for that is that the returns on a risk-adjusted basis are good and that they can be more assured of having, meeting the return expectations with private real assets.

And so we continue to see the allocations growing. So there's two things that are happening, the total number is growing, but the allocation and percentage is growing, and that's really what's driving it across the board in almost all major institutional clients in the world. And initially it was the largest institutions that were doing this. The smaller, the mid-size and smaller ones have learned from the large ones and they and their investment committees are now allocating to alternatives. So we think that'll keep going as long as we stay in low-ish interest rates, and we certainly seem to continue to be in that environment.

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**Mario Saric, Scotiabank**

Okay, great. And then I guess my second question is I noted there was a very small downtick in target returns within the opportunistic platforms. It was just about 200 basis points, I believe. Does that have any implication in terms of the base fees that you're able to charge L.P. investors? Or is it more predicated on the carry going forward?

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**Brian Lawson, Chief Financial Officer**

No, it's really more question of composition of those funds, as a couple that had matured, we distributed some capital out of them and we're just in the process of raising additional capital. So it'll get back. So we should probably pick that back up again.

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**Mario Saric, Scotiabank**

Okay. So it doesn't paint the picture, it doesn't suggest anything in terms of what you're seeing.

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**Brian Lawson, Chief Financial Officer**

No, no. In terms of—

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**Mario Saric, Scotiabank**

From a valuation standpoint (inaudible).

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**Brian Lawson, Chief Financial Officer**

Correct. In terms of what you might, no. That's right, Mario.

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**Mario Saric, Scotiabank**

Okay. Great. Thank you.

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**Operator**

This concludes the question-and-answer session. I will now hand the call back over to Suzanne Fleming for closing remarks.



**Suzanne Fleming, Managing Partner, Branding & Communications**

And with that, we'll end the call. Thank you, everyone, for participating.

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**Operator**

This concludes today's conference call. You may now disconnect.

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