

## **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*

**Mario Saric**

*Scotiabank*

**Andrew Kuske**

*Credit Suisse*

## **PRESENTATION**

### **Operator**

Thank you for standing by. This is the conference operator. Welcome to the Brookfield Asset Management 2017 Year End 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 2017 year-end 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 for the quarter and the year and Bruce will then give a business update. After our formal comments we'll turn the call over to the operator and take your questions. In order to accommodate all those who would like 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 will 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 other potential impacts 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.

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**Brian Lawson, Chief Financial Officer**

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

Let me start off by saying that we are pleased with the results for 2017. In particular, it highlights a successful year of growth for our asset management franchise and a further step change increase in our earnings base. Bruce will expand on this in his remarks but, in summary, we continue to expand our fee bearing capital, generate carried interest, and deploy capital across the multiple asset classes and geographies.

Funds from operations, or FFO, totaled \$3.8 billion for the year. That's a record for us. This represents \$3.74 per share and an 18% increase over last year. Net income was \$4.6 billion for the year or \$1.34 per share attributable to shareholders. Both FFO and net income benefited from the significant increase in fee related earnings, as well as growth in our existing businesses and contributions from new investments, and they also benefited from an increase in the level of realized disposition gains and fair value gains respectively.

I will now cover some of the highlights within FFO. First focusing on our asset management results – fee related earnings increased by 26% to \$896 million, and that's due to growth in fee bearing capital, which now stands at \$126 billion. This growth is driven by both capital committed to new private funds and growth in the capitalization of our listed issuers. We also earned our first performance fees from BBU as a result of the significant growth in its unit price following several notable acquisitions.

Moving over to carried interest, which is becoming increasingly relevant to our financial results. As our earlier vintage funds mature, they are starting to generate meaningful levels of unrealized carried interest. As we've noted in the past, carry doesn't typically arise in a fund until the capital has been invested and we begin creating value, so there is a natural lag. In 2017 we generated \$1.3 billion of unrealized carried interest or \$928 million net of costs. Total accrued carried interest is now over \$2 billion, more than double of the prior year, and while nothing is guaranteed, this provides a good indication of how we are tracking against the carried interest targets that we expect to realize over the coming years and puts us ahead of plan. The growth in fee bearing capital led to a 22% increase in annualized fees and target carried over the last year, which now stand together at \$2.5 billion. Within that, annualized fees stand at \$1.5 billion and add significantly to our current earning potential of the asset manager franchise while the annualized target carried interest increased to \$1 billion, representing significant future earning potential.

Turning to the invested capital side, FFO increased to \$1.5 billion, which reflects improved results across our businesses. We benefited from strong pricing and volumes, including higher generation within our renewable power operations, increases across our transportation businesses, and higher pricing in some of our industrial businesses. We benefited from the contribution from completed development projects, which provide us with opportunities to put capital to work within our existing businesses. And we also deployed capital into a number of significant acquisitions, including \$3 billion within our private equity operations and the acquisition of a \$5 billion Brazilian regulated transmission business, which enabled a step change in that business as well. The strong growth in FFO per unit in Brookfield Infrastructure Partners, Renewable Energy Partners, and Property Partners supported distribution increases in each of those businesses within their 5% to 9% target ranges. Disposition gains in FFO contributed \$1.3 billion, as we completed several significant sales in 2017, including the sale of our European logistics company and several core office buildings.

Before I turn it over to Bruce I wanted to provide a brief update on fundraising. As you are aware, we are through 80% invested or committed on both of our flagship real estate and private equity funds and so we are currently fundraising in these sectors. Our infrastructure fund is 50% deployed, which is right on track given its vintage. And

in 2017, while we didn't hold final closes for any of our larger flagship funds, we made very good progress in building out our other strategies such as our credit business. We raised our first infrastructure credit fund, which exceeded the target size, and held a first close on an open-ended real estate credit fund. With interest rates still expected to be very low compared to the returns we can generate, we continue to see demand in the foreseeable future for products which are alternative to fixed income investments.

We are pleased with our initial progress in the high net worth space, where we've raised over \$400 million since the beginning of 2017 through multiple channels, including private banks and registered investment advisors. Going forward, we planned to offer more of our products to clients in this channel and expect it to be a good area of growth for us.

Finally, I'm pleased to confirm that our board of directors has declared a \$0.15 quarterly dividend payable at the end of February and this represents a 7% increase over the prior year.

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

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**Bruce Flatt, Chief Executive Officer**

Thank you all for joining the call.

As Brian mentioned, assets under management continue to grow and our investments performed well last year. We continue to find opportunities to invest the capital that we've been raising despite a competitive environment and we put that down to three of our core advantages, which are size, our global presence, and our operating platforms. These advantages allow us not only to identify a wide range of investment opportunities globally but also to acquire assets for value and then use our operating businesses to create upside.

With strong markets, as Brian mentioned, we sold a number of assets, more than usual, and we will continue to do so in 2018. Our strategy has been twofold – first, to sell mature stabilized assets and redeploy the proceeds into higher yielding assets or, secondly, into returning capital to investors, particularly when this allows us to substantially complete a defined investment strategy.

Fundraising for real assets in both the public and the private markets for the assets that we manage remains strong, with institutional funds continuing to allocate greater amounts of capital to these sectors. With interest rates expected to remain in a low range compared to the returns that we can generate, and I'll return to that in a second, this growth should continue for the foreseeable future.

Turning to general markets, we see no signs of underlying economic issues despite the U.S. economy being nine years into an expansion. While this economic cycle shows no signs of ending, it is clearly in the mid to later stages of an elongated expansion, so we are being cautious. To that end, we continue to focus on our liquidity and our funding profile to ensure we're in excellent financial shape and positioned to react to substantial growth opportunities in the next down market, as we have done in the past.

Outside the U.S., economies are continuing to recover and in general offer more value than available in the United States. Looking at a few of those markets, in the UK, Brexit stress is offering select opportunities. Broader Europe is looking slightly stronger than it has been for a long time. Brazil is recovering remarkably with interest rates having dropped from over 13% to 6.75% now on the short-term rate. Australia has been very resilient. China continues on its path to becoming the largest economy in the world. And in India, where we've done a number of transactions, they're dealing with an over-leveraged corporate sector and that's presenting opportunities.

Across the developed markets, the main place where this cycle's excess liquidity has been building up, we've been monetizing mature assets at values that align with our investment strategies or where we can put it to work more productively. This has also enabled us to add liquidity to the balance sheet and invest more capital in emerging markets and out-of-favor businesses where multiples have not seen the same expansion. We currently have over \$25 billion of core liquidity and dry powder in our private funds and in this environment, we believe that real assets do continue to offer excellent long-term value.

I'd also point out that most competitive capital targeted at this sector did not have the breadth or the advantages of size, global reach, and operating capabilities that we have. Over the past year, for example, these specific points enabled us to complete purchases even in the United States where values were higher. We brought two SunEdison subsidiaries out of bankruptcy. As well, we recently announced an agreement to acquire Westinghouse Electric Company out of bankruptcy. We also added a number of quality businesses from sellers in need of capital in Brazil and India, which totaled around \$10 billion.

Lastly, I wanted to make few comments on our business of managing real assets for private investors across real estate, infrastructure, renewable power, and other related businesses. This business continues to mature and is now firmly established as a component of investment portfolios of most pension and sovereign plans. With these plans expected to double to upwards of \$80 trillion and with the allocation of real assets and alternatives also expected to double, there could be a further \$20 trillion of capital available over the next 10 years for investment into the type of assets that we invest in. This will continue to fuel significant growth in the industry. We believe this is a long-term trend and it is important to reflect on absolute returns when looking at our investments.

In the context of low interest rates and highly correlated equity returns, as well as growing liabilities and longevity risk, our investors are seeking alternatives to generate sufficient returns, diversify their portfolios, and reduce volatility. Our products address these needs and, to make that point, on our more opportunistic strategies we generally earn 20% plus or minus, and our lower risk strategies earn in the range of 7%. Today, these returns compare very favorably to a 10-year treasury in the U.S., even at its increased rate of 2.9%, Europe at 0.7%, and Japan at essentially zero. In our opinion, the only thing that can stop this trend of continued funding going towards these types of products is a significant increase in global inflation that pushes the long-term interest rates into a territory in which, and this is the important point, in which returns are not sufficiently superior to the yields that we can earn. Despite interest rates increasing from unduly low levels they were at, something we have expected for a very long time, we do not expect that this will affect our business and believe that it will be a long time before a high rate paradigm returns.

So, with that, operator, that completes my remarks. I will turn it over to you and Brian or I will take any questions, if there are any.

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## QUESTION AND ANSWER SESSION

### Operator

Ladies and gentlemen, to ask a question, please press star then the number one on your telephone keypad. We'll pause for a moment as questions come into queue.

Your first question comes from Cherilyn Radbourne with TD Securities. Your line is open.

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### Cherilyn Radbourne, TD Securities

Thanks very much and good morning. Wanted to start by asking about the private fund client base, which is up nicely to 500 clients. Can you talk about how the high net worth channel gets counted within that number and give us some color on how your private fund capital has continued to evolve by size and type of client and also the distribution by geography?

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### Brian Lawson, Chief Financial Officer

Sure. So I'll start off on the private client side. It's Brian, Cherilyn. Thanks for that. So, much of that happens in through what I would call on an aggregated basis. So, I'll say if there's one channel that we go through that represents 50 high net worth clients, we would just count that as one. So that's how that plays out. So, of the increase in the number of clients, which I think there were about 40 new clients that we introduced across the funds

over the past year, which was in a wide variety of geographies, I'd say very well diversified, there was a minimum amount of that was actually, from a numbers perspective, private clients.

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**Cherilyn Radbourne, TD Securities**

And so just in terms of some of the areas that you've been focused on, can you just comment on progress relative to small and mid-sized institutions in the U.S. and then also Europe, where you have seen a little bit underrepresented, arguably.

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**Bruce Flatt, Chief Executive Officer**

Cherilyn, I might just comment that, across the board our brand keeps getting better known and we keep growing in all areas. So I'd say we're adding more U.S. small clients, we're adding a number of European clients to our list when we continue to add clients really across the board in all jurisdictions.

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**Cherilyn Radbourne, TD Securities**

Great. My second question relates to something you referred to in the letter, which is the idea that as a value investor you have to be increasingly aware of the potential impact of technological change, so I wonder if you could just talk about how you've adapted your underwriting process or your regular business reviews to incorporate consideration of that type of risk.

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**Bruce Flatt, Chief Executive Officer**

Look, I would say that there is nothing that scientific about it other than we're extremely aware in some businesses, in fact in all businesses, technology is affecting them, some more than others, and the businesses where there are direct effects, we need to understand and try to better incorporate it into our underwriting. Although what I would say is generally it's more technological change, usually people overestimate what it's going to do to most businesses, and very seldom it is as dramatic or as quick as what most people expect. So often people getting over exuberant about it means that there are opportunities for us to invest in the interim stages where people are just wrong on predicting the time or the impact on businesses. So that's probably the biggest focus for us is more from a value perspective versus looking at it from where we can grow businesses from scratch, which most growth investors would be focused on.

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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 with KBW. Your line is open.

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**Ann Dai, KBW**

Hi. Good morning. Thanks for taking my question. So, first one is on Tax Reform. I guess I was just wondering if you guys can talk about the impact of Tax Reform on some of your underlying businesses and investments just given the size of the investments you have in U.S. and the nature of real asset investing. So maybe what are some areas where you might see investments start to look fundamentally less attractive due to limitations on deductibility

and then, conversely, are there areas where changes to rules around capital investment and deductibility around that might make other opportunities look more attractive in the near-term?

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**Brian Lawson, Chief Financial Officer**

Sure. Thanks, Ann. It's Brian.

So, in general, our take on this is that it is overall positive for us, and some of that's going to play out overtime. You mentioned a couple of things in there and, yes, there will absolutely be some benefits from accelerated write-offs or deductibility of capital expenditures. In a number of our businesses that will be helpful. Interest expense is probably overall not a big issue for us, in part because we run an investment-grade model fundamentally and so we keep our leverage and accordingly the interest cost is on the lower side in that regard. Also I would observe that several of the industries that we operate in are exempt from a number of these changes, whether it's utilities or certain real estate. So those would be some of the ongoing impact. And then of course having the tax rate to go from 35% down to 21% is obviously a benefit. So, overall, I'd say it's generally a positive for us and then of course a lot of that is just how does that kick into the economic environment overall, which, you know, if it has a positive impact on that, it is good for us.

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**Ann Dai, KBW**

Thanks, Brian. Bruce, I also wanted to address some things from the shareholder letter. So there is a line in there talking about you guys thinking about the next phase of Brookfield post 2025, so I understand that's long time away and maybe not a conversation for today but I guess I'm just kind of curious what some of those growth considerations are and at that point what might some of the concerns be that you'd want to talk through and then what's the motivation for kicking those discussions off today.

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**Bruce Flatt, Chief Executive Officer**

I would say the line in the letter is meant to indicate two things to shareholders. The first one is the next seven, eight years, by virtue of the business we have and the maturing of the business we have and the continued growth we think that can happen just with the business we have. For six, seven, eight years this business grows at a very fast clip and we don't have to do anything else and we can meet, we think, the returns that we've set out for the company. Once the business matures, if we haven't done anything else, 10 years from now the growth rate will slow.

Of course, we're going to do other things and what we need to do between now and 10 years from now is figure out how do we widen out the franchise and use what we have for the brand and our fundraising capabilities and our investment capabilities to add other products for our clients. And we don't think that will be an issue. So the reason for the comment was really twofold; one to say what the growth rate is, we don't have to do anything for the next seven, eight years. Post that, we need to figure it out, but we have a long time to figure that out. Most companies can't give you that predictability on the growth of the business from that perspective.

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**Ann Dai, KBW**

Okay. Thanks for the insight.

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**Bruce Flatt, Chief Executive Officer**

You're welcome.

**Operator**

Your next question comes from the Mario Saric with Scotiabank. Your line is open.

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**Mario Saric, Scotiabank**

Hi. Good morning and thank you. I just wanted to piggyback off of the last question with respect to this kind of post 2025. One thing that you've talked about in the past is just trying to identify perhaps what the optimal balance sheet for Brookfield Asset Management looks like over time and I was just wondering how that may play into any potential restructuring, if you will, as you kind of go through that next phase of your evolution.

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**Bruce Flatt, Chief Executive Officer**

Thanks for the question. I would just say that we are always open to doing things with the company that maximizes the value for all the shareholders in the business in the longer term. So, if that means 10 years from now that we should distribute out to shareholders, then of course we'll do that. And at some point, that might make sense. I think if you would have looked back 20 years ago or even 10 years ago and looked at where we are with business today, we might have said we were over-capitalized and we should distribute capital out. The differentiation is this – business keeps getting bigger and we can use the capital we have to keep building a bigger franchise. And we think that will continue for a while. At the point when the franchise doesn't get built and we can't put the money productively to work, then we will look at what we do with that capital, whether we increase dividends, give back to shareholders, or buy back shares or distribute it out in some other form. Look, we're open to all suggestions and we look at it all the time. Right now I'd say we think that it's an enormous competitive advantage to have the capital we have and that gives us a lot of ways to grow the business that others don't have.

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**Mario Saric, Scotiabank**

Okay. Thank you for that. And then my second question, just again referencing to the letter to shareholders and specifically the market environment, you've been noting more of a cautious stance in the last several quarters, just kind of referencing the elongated expansion and then I guess in this letter also referencing a couple of specific items that may raise kind of question marks with respect to valuation in the broader markets making you a bit more cautious. How do you, outside of pace of capital deployment, how does that shift the deployment mix in terms of capital allocation for you and has the cycle changed enough in the last three to six months where the shift in the mix in terms of how you deploy capital is changing?

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**Bruce Flatt, Chief Executive Officer**

I would just say that we always are investing and we're always putting money to work. We try to move our capital to where value is. So everywhere in the world today is not overvalued and every industry isn't overvalued. There are many businesses, I referenced two of them, being the SunEdison subsidiaries and Westinghouse, that these are two bankruptcies that happened in the United States. So this is the most liquid, highly-valued market in the world over the past 12 months and those are over \$10 billion of assets we purchased because of two specific situations. So we're always putting money to work. I would just say on balance though we try to have themes of should we be more cautious or more aggressive and in 2009, while we were worried like everybody else, we viewed that the best thing we could possibly do was as much as prudently possible we were trying to put money to work at that point in time. That wouldn't be what our attitude is today. It's we should be cautious. We should keep investing, because we have strategies to invest and we have to keep growing our businesses, but on balance, with excess capital we have on our own balance sheet and with funds, we're just a little more cautious today in some of the more highly-valued markets. But that doesn't mean there aren't other places and that's really the value we have in the breadth of the franchise, because there are places still in the world that are undervalued today.

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**Mario Saric, Scotiabank**

I agree. Thanks for your thoughts.

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**Operator**

Again, to ask a question please press star then the number one on your telephone keypad.

Your next question comes from Andrew Kuske with Credit Suisse. Your line is open.

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**Andrew Kuske, Credit Suisse**

Thank you. Good morning. The question is probably for Brian and it just relates to the ENI comparative, and I appreciate that being in the results this time around but maybe beyond the really obvious, but you might want to also address the really obvious, is why did you include the ENI in your supplemental today?

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**Brian Lawson, Chief Financial Officer**

Thanks, Andrew. What we're really trying to do is get out some comparable metrics relative to the other alternative asset managers and trying to facilitate that and, you know, if you do think about and, as you know, how we think about the business, really the easiest way to think about it is with the two components. One is the economics of the asset management business itself and then the other is the tangible value of our balance sheet. And so by putting out the ENI, it gives folks insight into the fee related earnings as well as the carry that we book, but as importantly, or more importantly, the amount of carry that is generating and building up in the system. And we think now the business has evolved to the stage where that is more representative. There's still a lag, but it's more representative of what is actually going on, whereas five years ago I'm not sure it would have been as good a metric for valuation purposes.

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**Andrew Kuske, Credit Suisse**

And then maybe just a follow-up on that: When you think about your ENI calculation and how it compares to some of the U.S. alts, how do you think about the quality of your ENI number versus the U.S. alts that tend to be very reliant upon IPO markets for cycling assets?

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**Brian Lawson, Chief Financial Officer**

So I think really what that's getting at is on the carry side of it. So we would maintain that, you know, the IPO markets obviously are relevant as an exit for certain types of investments. We feel fortunate in that because of the breadth of the business that we're in, and in particular the nature of some of the businesses that they're in, that they lend to a much wider variety of exit opportunities, and so we think that our ability to crystallize carry should be more robust as a result, because we have more options in how we can monetize an investment.

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**Andrew Kuske, Credit Suisse**

Okay, that's great. Thank you.

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**Operator**

There are no further questions queued up at this time. I turn the call back over to Suzanne Fleming for closing remarks.

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

Thank you, operator, and with that we'll end today's call. Thank you, everybody, for participating.

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**Operator**

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

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