Letter to Shareholders

Overview

Our business continues to perform well on all fronts. After generating $1.5 billion of net income, $1.2 billion of cash flow, $56 billion of capital inflows and $21 billion of asset sales—and making $20 billion of new investments – we have a record $111 billion of cash and capital available for investment. The scale, stability and diversity of our business continues to differentiate our franchise.

With many of our infrastructure, renewables and real estate assets positioned to benefit from inflation, our revenue streams and cash margins are widening as the compounding effect of inflation takes hold. Some of these assets adjust quarterly and others do so over the longer term, but this environment is enhancing our cash flows and increasing the replacement cost of assets we own.

Our clean power generation business continues to widen its advantage over every other source of energy, because the input costs of all other competitive energy technologies have increased substantially. In addition, for countries that do not possess local natural gas resources, the only electricity sources that ensure national sovereignty are solar, wind or nuclear energy. The last six months have demonstrated the importance of this fact, and it will provide an increased tailwind for renewables.

Our private equity business is focused on investing in essential industrial and service businesses that generate resilient cash flows and can grow through economic cycles. In the current economic environment, our overall business performance remains good.

Our Insurance Solutions business closed the American National transaction, increasing its scale to approximately $40 billion of assets. Prior to the closing of the transaction, in November of last year the company sold 100% of the common equity exposure in the insurance portfolio. This, along with the decision to convert the bond book last year into cash or short-dated liquid assets, provides us with substantial additional financial resources to deploy into the current investing environment, which is much more interesting than it was at the time we acquired the portfolio. Given that our liabilities are long-dated and carry low interest rates, the current increased yield environment should be very beneficial to us.

Market environment – Keep Calm and Carry On

Interest rate stress caused significant market disruption in the second quarter of 2022, but it is important to keep this in context. Despite two historic Fed rate increases—with probably more to come—short rates are only at 2.5% and long rates are less than 3%. Once this period of adjustment passes, rates are expected to settle at historically "low-ish" levels, which should still be very conducive to business.

Quantitative tightening has already been effective at impacting credit conditions in the mortgage market, private equity buyouts, and the AAA market for all credit. This affects almost all financings today, and it is why we are hopeful that the Fed is on track to achieve its desired outcome. Whether this causes a recession is not important in our view, as balance sheets for individuals and companies are in a good position to withstand this shift, and before we know it, we expect to be in a recovery.

With equity markets down 20% to 30% from the peak globally, some stocks losing as much as 80% of their quoted value, and credit markets turning sideways for many corporate borrowers, the investing environment for businesses like ours continues to strengthen. We are therefore investing capital at excellent returns—much higher than we would have otherwise achieved under conditions like those experienced in late 2020 and 2021. With our investable capital at a record level, we should be able to make meaningful strides with our franchise over the next few years.

Operating results were excellent

Distributable earnings before realizations were $1.0 billion in the quarter and $3.9 billion over the last 12 months—increases of 26% and 25% over the comparable periods, respectively. Our annualized run rate of fees plus target carry is now over $8 billion, and total assets under management are $750 billion.

Our strong fundraising and capital deployment, combined with stable margins, resulted in a 21% increase in fee-related earnings over the last 12 months. In addition, distributions from our businesses continue to grow, and amounted to $2.4 billion over the last 12 months—the result of the essential nature of the businesses and assets that we own, the inflation linkage in their revenues, and the high cash margins they generate.

Fundraising momentum has been very strong. We recorded inflows of $56 billion since the end of last quarter, and with us closing in on $75 billion for this round of flagship funds, we are looking ahead to the next round of fundraising.

We closed our Global Transition Fund at $15 billion, and we are currently in the process of completing a first close for our infrastructure fund of $20 billion and our private equity fund of $8 billion. The final close for our infrastructure fund is slated for later this year in an amount that will make the total fund significantly larger than its predecessor, and our private equity fund will have a final close in early 2023. To date, we have raised approximately $14.5 billion for our opportunistic real estate fund which will close this fall. And with quantitative tightening upending credit markets, we should soon have our $16 billion opportunistic debt strategy primarily invested and will then be back in the market with the next fund. Finally, we had $19 billion of perpetual capital inflows in the quarter.

We also made some great investments at very good valuations. We acquired an $8.5 billion software business that serves a large part of the car dealership industry in the U.S.; $3 billion of real estate assets at large discounts to their tangible value and at unprecedented cash-on-cash yields; a $6 billion subscription-based residential maintenance business in the U.K.; and part of a $17.5 billion telecom tower business in Germany.

Our realization activity has also been strong, as laid out in the last section of this letter. In total we generated $21 billion of capital in the period, realizing gains of $5 billion. This underlines the high-quality nature of our assets and their continued attractiveness for prospective buyers. Our portion of these realizations allowed us to end the quarter with record levels of liquidity to support growth and share buybacks, which have amounted to almost $500 million since the start of the year. Combined with distributions we have returned approximately $1.3 billion to shareholders over the last twelve months.

Our Senior Management Partnership is strong, and we are planning for the future

Background

For over 50 years Brookfield has been managed on a partnership basis, with the senior leaders working together as a team to accomplish the company's goals. This partnership has evolved over time to ensure that the management of Brookfield adheres to the guiding principles of value investing, teamwork, fairness, and promotion from within, that were adopted on its formation.

To ensure the continuity and success of the partnership, we actively promote from within and move executives into new roles so they will be prepared to take on still-greater responsibilities. At the same time, the more senior partners are encouraged to remain with Brookfield even after their front-line responsibilities have been passed on to others. This evolutionary process ensures that senior partners are available to share their experience with younger partners and thus facilitates the transfer of generational knowledge and guiding principles to younger colleagues so they can assume more senior roles far faster than would otherwise be the case.

As part of our efforts to ensure that we remain innovative, we continuously review our structure, breaking down the organization into entrepreneurial groups and launching new businesses. We have found that having more tightly focused teams with clearly defined mandates enhances our ability to grow our business and provides more expansive experience to our executives. These business units currently include Real Estate, Infrastructure, Renewables, Private Equity, Credit, Insurance Solutions—and as now planned Asset Management.

As we look to the next phase of our growth, and concurrent with the split-out of our Asset Management business before the end of 2022, we believe it is once again time to further strengthen our senior management team with the elevation of the next generation of leaders, while continuing to have the company's team working together as collegially and effectively as ever. Our objective is to ensure that our entrepreneurial groups excel in implementing their own individual mandates, while together providing overall Brookfield with support, and the shareholders and clients of Brookfield with enhanced service and performance.

Brookfield Corporation

Brookfield Corporation (this is currently the company you own shares in, which will be renamed Brookfield Corporation and is referred to here as "the Corporation") will retain most of the proprietary capital that Brookfield owns, as well as 75% of the shares of the Manager. The current board of Brookfield will continue with Frank McKenna and Bruce Flatt as Chair and CEO, respectively. Nicholas Goodman will be appointed President and Chief Financial Officer, with responsibility for allocating capital among our operating businesses and new business initiatives.

The Corporation's principal responsibility will continue to be optimizing the allocation of the approximately $200 billion of proprietary capital and substantial cash flows generated annually from our businesses. This includes our major investments in Brookfield Property Partners, Infrastructure Partners, Renewable Partners, Business Partners and Reinsurance Partners, among other businesses, funds and assets.

Brookfield Reinsurance

Brookfield Reinsurance (this is the paired share with Brookfield Corporation; it holds our insurance activities and is referred to here as "Insurance") currently has over $7 billion of equity capital and approximately $40 billion of assets. The board of Insurance will remain the same, with Sachin Shah continuing as CEO.

The goal of Insurance is to create one of the leading platforms for Insurance Solutions globally. It is expected that the capital base of this business will be vastly greater in the future, achieved through internal growth as well as through the addition of new capital from the Corporation and other business partners. Insurance is expected to become a significant global operating business for overall Brookfield, while continuing as a paired share with Brookfield Corporation for the foreseeable future.

Brookfield Asset Management

Brookfield Asset Management Ltd. (the new entity formed to conduct our asset management activities, of which you will receive shares, referred to here as “the Manager”) will manage our $750 billion of assets. To accomplish its goals, the Manager will employ most of the 2,200 investment and support-focused personnel that are currently devoted to these activities at Brookfield.

Mark Carney will be appointed Chair of the Manager, in addition to his other responsibilities with Brookfield. Bruce Flatt will continue as CEO. Connor Teskey will be appointed President of the Manager, in addition to his activities as CEO of our Renewables and Transition Group. Anuj Ranjan will be appointed President of the Private Equity Group in addition to his overall business development activities for the Manager, and Bahir Manios will be appointed Chief Financial Officer of the Manager.

Our operating businesses will continue to be led by the current CEOs. Each of these businesses is independently focused on its area of operation with some resources pooled for fundraising, capital markets, and corporate functions. The Manager will also hold Brookfield’s 64% share of Oaktree Capital Management, which will continue to be run by its Co-Chairs Howard Marks and Bruce Karsh.

The Board of the Manager will consist of Mark Carney (Chair) and Bruce Flatt, seven independent directors, and the founders of our real estate, private equity and infrastructure businesses—Brian Kingston, Cyrus Madon, and Sam Pollock, who will also continue to act as CEOs of their respective businesses.

The principal goal of the Manager will be to earn strong returns for clients without exposure to undue risks, while providing the highest quality service and continuously innovating our investment process and products. If we achieve this goal, we should continue to be one of the global leaders in alternatives investing for institutional, sovereign, and high net worth clients globally.

Price and Value are rarely the same; this often creates opportunity

At junctures where stock markets trade off significantly, it is worth repeating why value investing is a proven way to achieve long-term success. Buying, building, and holding great businesses, with great people, in great places, for long periods of time, is the source of long-term investment success.

Value investing is, in essence, the arbitrage between “Price” and “Value”. The goal of the value investor is to arbitrage price differentials between the Price for assets, whether that be in the public or private markets, and the true intrinsic Value of those assets. And while it’s simple to understand in concept, it takes years to develop the discipline, patience and judgment required to successfully implement a value investing strategy.

We are great believers that over the longer term, the Price of a security will gravitate toward its Value. However, in the short term, for many reasons, Price often does not equal Value. Investors in the stock market, of course, have a daily mechanism allowing them to know the quoted Price of each asset. Price is more difficult to ascertain in the private markets—particularly during periods of market volatility—and it can be well above or well below the long-term Value.

Assets prices are usually dependent on the supply of and demand for capital, which in turn is heavily influenced by investor sentiment. In robust markets, there is generally more capital than there are assets. This forces Price higher, even to the point where it far exceeds Value. There is no doubt that, in hindsight, this described many technology and “growth” stocks in 2020/2021. On the other hand, in stressed markets, if a sale has to be made, the Price received for an asset can be far below its Value. We are starting to see some of these situations emerge.

In summary, Price is often influenced by the news of the day, market sentiment, the availability of capital, and other factors that may or may not have any relevance to the Value of a specific security.

Value, on the other hand, is the net present value of the future cash flows of a business or asset, based on assumptions for future growth and discounted at the appropriate rate for that particular investment strategy. The difficulty in ascertaining Value is that there is no absolute value for anything, so there will always be a wide range of views over an asset's growth profile, profitability, and the appropriate discount rate. The experience and discipline we have in determining these Value factors for assets and businesses are key attributes of our franchise.

The buildout of global infrastructure is vast and scalable

We are experiencing a massive buildout of global infrastructure. This brings large opportunities for private developers with expertise and capital. The good news is that while the scale is daunting, private capital investors have had 15 productive years of learning how to build and directly own infrastructure assets. As a result of this positive experience and the returns afforded by these assets, capital is available to match the need.

From a demand perspective, global infrastructure is aging, and less public capital has been invested than is required to keep up with the pace of population growth. In addition, there are major tailwinds for investors in the form of the tens of trillions of dollars needed for the backbone of the Internet and Mobile Infrastructure; Energy Transition; Reshoring of Critical Infrastructure; and the Rewiring of European Energy. This buildout, requiring tens of trillions, will take the next 20 years and will produce an incredible investment boom. Some detail on each of these follows:

- Internet and Mobile Infrastructure – Vast amounts of capital will be required over the coming decades to build out the backbone of the cloud, internet and mobile devices. This includes data centers as the storage of data explodes; fiber networks for increased latency and faster connectivity; telecom towers to connect all the mobile phones; and spectrum for global connectivity and as cars go autonomous.

- Energy Transition – Trillions of dollars will be required by 2050 for energy transition as energy grids are converted to more renewables, and as the developing markets move off coal and onto natural gas and renewables. In addition, the electrification of industry and transport will require that trillions be invested in electrical battery plants and other infrastructure for the decarbonization of high emitting and hard to abate sectors.

- Reshoring of Critical Infrastructure – Large-scale capital will be required over the next 15 years to accomplish the highly strategic reshoring of critical and politically sensitive products that each country requires today, both to operate from day to day and in order to not be held hostage by other nations. Numerous products fit into this category—the most visible being semiconductor chips, which are critical to everyday life.

- Rewiring of European Energy – Given the recent geopolitical events in Europe, unprecedented capital will be required to rebuild the European backbone infrastructure in order to enable energy self-sufficiency. This will include nuclear, LNG regasification facilities, energy storage, hydrogen and large-scale renewables.

Governments have historically provided much of this infrastructure but given that governments are currently running the highest debt-to-GDP numbers ever, most countries will need private capital for these investments. Governments have therefore started to fully embrace private enterprise and are likely to utilize private capital to build infrastructure.

Joint public and private programs both amass more capital and build infrastructure more quickly. The U.S. and European programs for semiconductor buildout, where the two governments are committing upwards of $100 billion to back reshoring of semiconductor manufacturing to the U.S. and Europe, is a very good example of government using its capital alongside private enterprise for the benefit of all.

Great assets hold value and provide liquidity

We completed $21 billion of monetizations since we last wrote to you, realizing gains totaling $5 billion. We note this in the context of the market disarray, as you may not be aware that many private markets are still operating in a very normal way. Of course, some borrowing is harder to do, interest rates are higher, some yield spreads are wider, and the markets are not as robust as they were. But for high quality assets, markets are generally still open and available to transact at good valuations. Some recent examples include the following:

- U.K.: Residential Property Student Housing Business – over seven years we built, developed, and acquired student-housing properties in the United Kingdom that became the third-largest portfolio in the country. At 26,000 beds, Student Roost is an operating business we created from the ground up that became a highly attractive asset for many buyers. We recently sold the business for £3.3 billion of enterprise value. We had invested £700 million into the equity of this portfolio over time, and on closing later this year will generate cash from the investment of £1.8 billion to the equity—resulting in a gain of US$1.6 billion or 2.7x our investment, resulting in an internal rate of return of 25%.

- U.S.: Container Port Property in Los Angeles – in 2015, we acquired 50% of two container ports in California for $280 million and worked with our partner to modernize and upgrade the facilities. This resulted in our ports being the most mechanized on the west coast of the United States, and therefore having the highest margins and the fewest issues in a tough operating environment over the past few years. We recently sold our 50% of the assets for $1 billion—resulting in a gain of approximately $700 million, which represented a 3.2x multiple of capital and an internal rate of return of 19%.

- India: Toll Road Portfolio – in 2017, we began acquiring toll roads in India, and over time we built a portfolio of 513 kilometers of these roadways. We enhanced the operations, including health and safety standards and built an operating business from the ground up. We recently sold the operating company we built—and the toll-roads we assembled—for $1.1 billion. This resulted in a $200 million cash gain and generated a multiple of capital of 1.6x, resulting in an internal rate of return of 14%.

- U.K.: Office Properties in City of London – we sold a property in the City of London for £300 million that we had built ground-up for a cost of £150 million. We acquired our partner's half pre-Covid at a gross valuation of £270 million. These transactions in totality generated an annualized internal rate of return of 18% and a 2.5x multiple of our equity capital. Down the street, while not a sale, we just completed the refinancing of 100 Bishopsgate, which is now fully completed, fully leased, and is established as one of the leading office buildings in central London. We built it for £850 million and closed last month on a non-recourse refinancing of £1.2 billion. We now have received cash distributions representing 100% of our equity plus a further £330 million, while continuing to own 100% of it. To date this has generated an internal rate of return of 19% and a multiple of equity capital of 2.9x.

- Brazil: Electricity Transmission Lines – in 2016, we bid on a concession to build electricity transmission lines in Brazil. We have completed five of our nine concessions, consisting of approximately 2,400 kilometers of lines. These lines bring desperately needed renewable energy from the north of the country to the industrial heartland of Brazil. We agreed last week to sell the five concessions for approximately US$1.5 billion, resulting in a 2x multiple of capital and a 22% internal rate of return.

- New Zealand: Telecom Tower Portfolio – in 2019, we acquired a 50% stake in a fully integrated telecom tower network for approximately 7x EBITDA. In mid-July, we signed an agreement to sell a 1,500 mobile telecom tower portfolio that was previously owned within our New Zealand telecom business. We were able to successfully exit the towers at 34x fiscal year 2023 pro forma EBITDA and return nearly all our invested capital for the entire acquisition, while retaining a valuable fiber network and one of the country's leading retail mobile network operator brands. For us and our partners, the transaction is expected to generate proceeds of $1.0 billion in Q4 of this year, following customary regulatory approvals.

We expect to sell significant further assets at strong values in the remainder of 2022, and we do not expect the current environment to impact materially on the valuations of the stable cash generative assets we own.

Closing

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

Sincerely,

Bruce Flatt
Chief Executive Officer

August 11, 2022

Cautionary Statement Regarding Forward-Looking Statements and Information

All references to "$" or "Dollars" are to U.S. Dollars. 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 which reflect management's expectations 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." In particular, the forward-looking statements contained in this letter include statements referring to the impact of current market or economic conditions on our businesses, the future state of the economy or securities market, the expected future trading price of our shares or financial results, the results of future fundraising efforts, the expected growth, size or performance of future or existing strategies, future investment opportunities, or the results of future asset sales. In addition, forward-looking statements contained in this letter to shareholders include statements regarding the listing and distribution of our asset management business, including the anticipated timing and value of such transaction and the impact that such transaction may have on Brookfield and its shareholders. The board of directors of Brookfield has approved, in principle, Brookfield pursuing the transaction. The transaction will be subject to the satisfaction of a number of conditions, including shareholder approval, and, as such, there can be no certainty that the transaction will proceed or proceed in the manner described.

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, including the ongoing COVID-19 pandemic and related global economic disruptions, which may cause the actual results, performance or achievements of Brookfield Asset Management Inc. or the Manager 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: (i) investment returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business including as a result of COVID-19 and related global economic disruptions; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes and epidemics/pandemics; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage;(xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including our real estate, renewable power, infrastructure, private equity, credit, and residential development activities; and (xxv) 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 and other factors could also adversely affect its results. Investors and other readers are urged to consider the foregoing risks, as well as other uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

Expect where otherwise indicated, the information provided herein is based on matters as they exist as of the date hereof and not as of any future date. Unless required by law, we undertake no obligation to publicly update or otherwise revise any such information, whether written or oral, to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date hereof.

Past performance is not indicative nor a guarantee of future results. There can be no assurance that comparable results will be achieved in the future, that future investments will be similar to the historic investments discussed herein (because of economic conditions, the availability of investment opportunities or otherwise), that targeted returns, diversification or asset allocations will be met or that an investment strategy or investment objectives will be achieved.

Certain of the information contained herein is based on or derived from information provided by independent third-party sources. While Brookfield believes that such information is accurate as of the date it was produced and that the sources from which such information has been obtained are reliable, Brookfield makes no representation or warranty, express or implied, with respect to the accuracy, reasonableness or completeness of any of the information or the assumptions on which such information is based, contained herein, including but not limited to, information obtained from third parties.

Cautionary Statement Regarding the Use of Non-IFRS Measures

This letter to shareholders contains references to financial measures that are calculated and presented using methodologies other than in accordance with IFRS. These financial measures, which include Distributable Earnings and its components, should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics are not standardized under IFRS and may differ from the financial measures or other financial metrics disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities.