

# Letter to Shareholders

## Overview

It has been a busy start to the year, with significant progress across the overall business. We successfully closed a number of transactions, including two large transactions in Brazil – a \$5 billion natural gas pipeline in our infrastructure fund and a \$1 billion water distribution business in our private equity fund. We also closed over \$1 billion of properties into our opportunistic and core real estate funds, including a portfolio of U.S. office and logistics assets as well as a preferred share investment in a hospitality REIT. We advanced the \$1.4 billion acquisition of the TerraForm companies for our renewable power business, which we hope to close later this year.

We reported favorable results with most of our operations performing on target. Our real estate and infrastructure operations achieved plan and we exceeded generation targets in our hydro operations, although current power prices continue to be lower than expected. Our private equity business generated good results and closed a number of attractive investments.

## Capital Raising and Liquidity

We continue to be active with fundraising, capitalizing on the momentum created by our record flagship fund closings last year. We are in the midst of completing the final raise of capital for our ±\$3 billion Real Estate Mezzanine Debt Fund and we will begin fundraising for our next Strategic Real Estate Partners Opportunity Fund this quarter. Investors continue to allocate large amounts of capital to both real assets and private equity, and our size and global operations are proving to be a great advantage in deploying capital.

We invested a significant amount of capital across our asset classes and geographies. As a result, we are now 80% invested in our flagship real estate fund, 55% invested or committed in our private equity fund, and 45% invested in our infrastructure fund.

Despite the pace of investments, our Brookfield Asset Management balance sheet continues to become more liquid. In addition to our increasing free cash flow, we also have upwards of \$10 billion of liquid financial assets and term bank lines, between Brookfield and our permanent capital partnerships. Today these are mostly undrawn, and together with \$20 billion of commitments to our private funds provide us with approximately \$30 billion of capital for investments.

## 245 Park Avenue

We recently sold our 245 Park Avenue property in New York for \$2.2 billion. This property was originally acquired for \$430 million in 1996. That is a 5x multiple of total capital and 10x our original equity investment. The sale of this 1.8 million square foot building brought to conclusion a 20-year history of ownership, and while we are pleased to sell for a number of reasons, we still believe that great real estate always outperforms what any arithmetic model can show. As a result, 20 years from now the new owner will likely still be very pleased with their investment.

Seldom, though, are we able to fully describe a 20-year history of an asset as an example of what we do in our business. The story of 245 Park is illustrative of that process.

In 1996, we purchased the property as part of the acquisition of a New York real estate company that was in bankruptcy. At that time, we allocated \$430 million of the total purchase price to this property. It came with a \$290 million mortgage, meaning that we invested \$140 million to acquire the equity. In 2001, the value of the property had increased substantially, due to our renovation and subsequent re-leasing of the property with higher rents and stronger credit tenants. This enabled us to refinance the property with a \$500 million mortgage and withdraw \$200 million of cash.

In 2003, we sold a 49% equity interest to a client for a further \$200 million. At the time, a \$900 million total value for the property seemed high, and this allowed us to redeploy the capital elsewhere. Over the years, further leasing success, capital improvements and higher rental rates increased the value of the property further and we increased the mortgage on the property again to \$800 million. We received another \$150 million of cash from this financing. Finally, in this latest transaction we sold the entire building for \$2.2 billion. Net of the \$800 million mortgage, we received proceeds of \$1.4 billion, which was distributed to us and our client.

In total, we received \$1.5 billion of cash from our initial \$140 million investment – or more than 10 times our initial equity investment. This included refinancing proceeds of \$350 million, sale proceeds of \$850 million, and \$300 million of cash distributions from this property, which are net of tenant inducement and capital expenditures invested back into the property.

## India

Over the last 10 years, we have incrementally grown our operations in India. Most of our major commitments of capital have been in the last three years as market dynamics and the availability of large-scale opportunities moved in our favor. We recently acquired nearly \$5 billion of assets and built full scale operating businesses in India in order to look after these operations. We did this because we felt this would be an important competitive advantage, consistent with our approach elsewhere, and now employ approximately 1,000 people across the country. This gives us significant operating expertise and the capability to expand in an environment that is not always easy to operate in.

We now own approximately 15 million square feet of office space and 350 lane-kilometers of toll roads, and will soon own 43,000 telecom towers, making us one of the largest real estate and infrastructure investors in India. More recently, our private equity business has begun making senior loans to local residential developers on what we believe are attractive risk and return dynamics.

We are very positive on India's prospects. We think the country has a fantastic "macro" story but a challenging "micro" story, making it an attractive place to invest for those with the necessary operating skills. As the fastest growing major economy in the world, a growing labor force of 500 million, inflation that is under control, high gross national savings, a stabilizing rupee, and a declining fiscal deficit, the country is rapidly progressing. The 2014 election of Prime Minister Modi has dramatically improved India's political climate. More recently, Mr. Modi's landslide win in India's most populous state secures the Upper House and has reinforced his legislative agenda. The controversial "demonetization" in 2016 now appears to be a thing of the past, and this should lead to strong policies and action out of the federal government over the next 10 years.

Against this positive backdrop, the biggest risk for India is the excessive leverage in many corporations. Over \$150 billion of non-performing and stressed loans are putting pressure on the banking sector and could constrain growth. This is an area that we have been watching closely, as many of the sectors we invest in – infrastructure, power, industrial businesses, and real estate – are where much of the stress lies. But while the companies are over-levered, many have underlying assets which are excellent. They are simply in need of new capital structures. As a result, this is presenting opportunities.

Going forward, we see opportunities to further expand our real estate, toll road and telecom tower operations. We are focused on large-scale corporate carve outs from companies that are in need of capital, while retaining a healthy respect for the challenges that exist in India.

## BRK Ambiental

Our private equity group recently completed the acquisition of a business we have renamed BRK Ambiental (“BRK”) for approximately \$1 billion (ambiental is the Portuguese word for “environmental”). BRK operates water and sewage treatment systems and serves approximately 17 million people – or a little over 8% of the Brazilian population. These customers live in 12 states across Brazil, making BRK the largest and most diverse private water company in the country. It has long-term concession contracts with municipalities, and receives tariffs that are adjusted annually for inflation. As part of the agreements with the municipalities, the company also invests significant new capital to improve and expand the networks, typically over a 25 to 35 year period. This means that we expect to generate long-term cash flows that are not only reliable but will also grow over time through inflation and expansion opportunities.

Over the last two decades, Brazil has made significant progress in increasing GDP per capita and improving the overall standard of living. As the standard of living improves, the population is demanding better infrastructure and services. While the vast majority of Brazilians have access to water, much of the network is in poor condition and sewage collection and treatment levels are low by global standards. The Federal Government of Brazil has been focused on improving these service levels and has set a goal of investing more than US\$100 billion in water and wastewater services over the next 10 plus years. In addition, many state governments are in need of capital and have announced plans to privatize their water systems. This is the great opportunity; as a result of these factors, few businesses have the same growth prospects as BRK.

Rarely would a business with stable and growing existing cash flows, a leading market position and abundant growth opportunities become available to acquire, and if it did, it would be highly sought after by multi-national strategic buyers, who would seek to earn single-digit rates of return. However, in this case there were many challenges that caused most logical buyers to not pursue this opportunity. First, Brazil was in deep recession and its currency had weakened at the time we got involved. Second, the government was mired in a corruption scandal that resulted in the President being impeached. Third, the seller of BRK was implicated in the same corruption scandal and was forced to pay very substantial fines to authorities, leaving it liquidity constrained. Fourth, the transaction itself was multi-faceted: there were multiple partners and dozens of municipalities involved, and the need to perform a corporate carve out required us to take over management of the business immediately at closing.

As we often do, we took a long-term view of this opportunity at a time when few others could, and therefore competition was limited. This was largely due to our strong presence and reputation in Brazil, our access to capital, and the scale of operations necessary to complete a transaction of this size.

We are thrilled to become owners of this business, which looks to have excellent ongoing cash flows and significant opportunity for growth. In addition, the service we are providing is highly transformative to the living standards in this emerging country, and therefore should be an attractive business for a long time.

## Retail in America

Directly and through our investments in GGP and Rouse, we own a large number of retail real estate properties in America. Most of these assets are very high quality and are in the best of the best retail locations. The revenues in our premier properties are very stable with only 10% of our leases expiring each year and we have built-in annual increases in rents. These increases provide us growth without incremental capital investment and therefore provide growing, long-term stable cash flows to the business.

Over the last six months, the market chatter about retail in America has increased almost to the level of the love that Americans have for shopping. Most articles on retail focus on the impact ecommerce is having on traditional brick and mortar retailers. It is safe to say that we do not believe that the retail real estate market is going away, and the numbers prove it. Retail sales in the U.S. are over \$4 trillion of which internet sales (excluding drugs) approaches 8% of the total.

In addition, successful online retailers are beginning to realize that brick and mortar locations are essential for their continued growth. We strongly believe the future of retail lies in the integration of online with brick and mortar retail and are working to ensure that we are a part of that with our premier assets. With the balance of our assets we are focused on redeveloping these into other uses as the highest and best use is now often residential, office and hotels.

At GGP we own 100 of the top 500 regional shopping centers in the U.S. Most of these are premier assets that can be sold in the private real estate markets at very high prices due to both their stability and the long, successful investment history of well-located retail real estate. Today there is a significant disconnect between private values and the public markets, and we intend to capitalize on this difference.

We lease more than 11 million square feet of space annually across our retail portfolio. This takes the form of renewals, replacing existing retailers, or adding retailers to new space through our numerous redevelopment projects. New rents are generally higher than expiring rents and this is most clearly seen in our reported rent spreads which continue to be very positive.

We also have the opportunity to reclaim some of the best real estate we know of: department store spaces at our existing properties. As department store companies rethink their business models, they have been sellers of assets at prices we find attractive. We can integrate these boxes into our malls and redevelop these assets to bring in new tenants, and earn 7% to 10% unlevered returns on cost. Not only are we generating 15% to 20% leveraged returns on incremental capital, but we are also improving the existing centers.

In addition to re-developing department stores for new retail tenants, we also have the opportunity to increase density on the land we own. Regional shopping centers are horizontal assets with large parking footprints which can allow for great creativity in the redevelopment process. We are finding significant opportunities with continued urbanization to add multifamily residential rentals, condominiums, hotels and office uses to these large pieces of real estate.

Retail real estate has always evolved, and we expect this to continue. Change presents opportunity for those that have the vision, capital, and skills to be able to capitalize on the market change. We plan to be a part of it, as great real estate always wins.



## Performance Across Our Operations

Fee bearing capital increased 14% to \$113 billion, compared to \$99 billion in the prior year. This was driven by inflows from both the final closes of our flagship funds in the second quarter of 2016, and new product offerings. Fee related earnings over the last twelve months were \$691 million, an increase of 21% over the previous twelve-month period, driven by increased management fees from greater capital at work.

AS AT AND FOR THE TWELVE MONTHS ENDED MARCH 31 (MILLIONS)	2013	2014	2015	2016	2017	CAGR
Total assets under management	\$184,391	\$190,172	\$207,132	\$239,766	\$245,205	7%
Fee bearing capital	74,232	80,899	90,632	99,223	113,114	11%
Annual run rate of fees plus target carry	830	1,044	1,264	1,568	2,058	25%
Fee related earnings (LTM)	199	324	404	569	691	37%

We have been actively deploying capital across all of our strategies and recently completed several large transactions. We closed on several previously announced investments which totaled approximately \$11 billion of capital. Our ability to secure quality opportunities has allowed us to continue deploying capital for our flagship funds at attractive returns; we have invested or committed 80% of our opportunistic real estate fund, as well as 45% and 55% of our infrastructure and private equity funds, respectively. Given this, we expect to launch fundraising for our next real estate flagship fund later this year and to begin fundraising for our next infrastructure and private equity flagship funds in 2018.

We continue to focus on developing new investment products where we see attractive opportunities. In addition to our traditional funds, we have been deploying capital in several new funds across asset classes and geographies. One particular area of focus has been credit strategies, and we have built dedicated private credit programs leveraging existing expertise within each business group to identify investments and enhance value.

Within our infrastructure business, we recently launched a debt fund to provide loans backed by high quality core infrastructure assets. In our real estate business we launched our first open-ended debt fund in North America, which is in addition to our existing mezzanine credit funds. Within our private equity business we are originating loans to companies that lack access to traditional capital markets in the mid-market credit area.

### Real Estate Group

Real estate investment metrics in most of our core markets remain solid, particularly in cities such as New York and, despite common belief, London.

We completed approximately one million square feet of office leasing in Manhattan since December 2016. At our Manhattan West project, we opened The Eugene – our 844-unit apartment building – and are now renting units. In London, our Principal Place office development was completed in the first quarter and its full-building tenant will soon begin occupying the space. Despite some concerns in the market over future demand following last year's Brexit outcome, approximately 75% of the roughly two million square feet of the projects we have under construction in the City of London have already been leased, and the leasing environment continues to be good.

In spite of much angst in the media about retail, our core retail business continues to benefit from high occupancy (95%), increasing tenant sales and same-store NOI growth in the 3–4% range. Our current business model in the mall sector has been focused on taking back department stores and re-leasing them to alternate, higher-growth, higher-traffic retail formats.

Capital recycling has been a key component of our strategy for several years, during which we have been selling core assets in markets that attract global investment capital seeking stable yields. Last year we raised net equity of approximately \$3 billion from asset sales and are targeting a further \$1 to \$2 billion in 2017. The

aforementioned sale of 245 Park Avenue generated approximately \$650 million towards that total after quarter end. We are recycling the proceeds into opportunities that offer significantly higher yields, notably new developments and opportunistic investments. We are also pursuing transactions to consolidate the portions of our office businesses in Canada and Australia that are held through smaller public entities to integrate their operations, reduce costs to unitholders and simplify ownership.

Our private real estate funds have remained very active, putting approximately \$10 billion of capital to work in the last while. Recently, our opportunistic real estate fund acquired a portfolio of 13 student housing assets in seven university markets in the U.K. We are now the fifth largest owner/operator of student housing assets in the U.K. We also made a \$400 million investment in a public, non-traded hospitality REIT, which owns 140 select-service hotels throughout the U.S. In our recently launched U.S. open-ended core-plus fund strategy, we closed on two investments: One Post Street, an office building in downtown San Francisco for \$245 million in a sale-leaseback transaction with an anchor tenant, and a portfolio of 37 high quality logistics assets located in major population centers across the U.S. for \$630 million.

## Renewable Power Group

Our renewable power business delivered generation in line with long-term average while a focus on cost reductions as well as acquisitions completed over the last twelve months contributed to results. Performance of our hydroelectric assets reflected improved water inflows across the portfolio while our wind assets benefited from favorable generating conditions in Canada, Europe and Brazil.

We announced an agreement to acquire a 51% controlling interest in TerraForm Power and 100% of TerraForm Global, two publicly traded renewable power companies. These businesses together own and operate approximately 3,600 megawatts of high quality, predominantly contracted renewable assets with a majority of their cash flows derived from facilities in the United States. With additional assets in high growth countries including China, India and Brazil, this acquisition gains us entry into new and attractive growth markets. Further, it will mark our first meaningful investment into solar and provide us with a scalable new business from which to pursue further expansion in the sector. The transactions require a number of court, shareholder and regulatory approvals which we hope to complete in the second half of the year.

In Colombia, the shares of Isagen were delisted from the Colombia stock exchange at quarter end, completing our privatization of this 3,000 megawatt hydroelectric portfolio. We continue to advance our long-term plans for this business which is positioned to contribute to our cash flow and organic growth prospects over time.

We continue to deliver organic growth at premium returns by developing and commercializing renewable power projects across our portfolio. In Brazil, we commissioned a 25 megawatt hydro facility and are advancing the construction of another 47 megawatts of fully contracted hydro. In Europe, we substantially completed a 15 megawatt wind farm and are advancing construction of three wind projects totaling 66 megawatts in Ireland and Scotland. As we build out and commercialize greenfield development assets, we are also replenishing our organic growth pipeline and recently agreed to acquire a 16 megawatt construction-ready wind project in Europe, with an option to purchase another project totaling 23 megawatts.

Contracted renewable assets in our core markets remain highly valued and accordingly, we continue to opportunistically pursue asset sales to crystallize value. To this end, during the quarter we completed the sale of two operating wind farms with 137 megawatts of capacity in Ireland, surfacing a rate of return well in excess of our underwriting.

## Infrastructure Group

Results from our infrastructure group benefited from strong organic growth from our inflation and GDP-linked cash flows, the completion of development projects, and the contribution of new investments made over the last twelve months. We have over \$2 billion of committed capital backlog projects underway that will contribute to a minimum of 6-9% of organic growth in FFO in the next twelve months. In addition, we have a number of projects at advanced stages, totaling approximately \$2 billion, that would replenish our backlog over the next two years.

From an acquisition standpoint, we are pleased to have significantly expanded our utilities business. We recently closed the \$5 billion acquisition of the Brazilian natural gas transmission business, which will contribute meaningfully to our results in the second quarter. In addition, we have two pending transactions that we expect to close in the first half of the year, including a modest acquisition of a water irrigation system in Peru, and a \$650 million investment in a telecommunications tower business in India with 43,000 towers.

While we continue to observe active deal flow for infrastructure assets, we remain disciplined and patient. Our current pipeline is strong and we are continuing to evaluate a number of opportunities in North America, particularly in the energy sector, where capital is constrained due to low commodity prices and telecom opportunities in India where we see additional opportunities to add scale to our business.

We have substantial capital in our flagship listed partnership and private funds for new investments. At Brookfield Infrastructure Partners, we recently raised almost \$750 million at the corporate level through a series of preferred share and bond offerings. The listed partnership has total liquidity of \$2.2 billion and we have ±\$8 billion of capital available in our private fund. Furthermore, we expect to add to these levels over the next 6-12 months or so as we generate proceeds from capital recycling initiatives. In this regard, the business is positioned to capitalize on several attractive investment opportunities currently being pursued.

## Private Equity Group

Our private equity operations were positively impacted by a gain on the sale of an investment in a bath and shower manufacturer. This was offset partly by ongoing repositioning initiatives at certain of our other operations. Our North American residential development business and our investment in Norbord continue to be positively impacted in the U.S. and Ontario by a strong housing market backed by limited supply.

Our primary focus this year is to complete and integrate strategic initiatives which will significantly expand the scale of our operations and add to our overall earnings and cash flow over the longer term. We were successful at progressing many initiatives during the first quarter, including the recent acquisition of Greenergy Fuels Holdings Ltd, a leading U.K. provider of road fuels, including environmental friendly fuels like waste based biodiesel.

Following the end of the first quarter, we completed the acquisition of BRK Ambiental ("BRK") for approximately \$1 billion. We believe it is well positioned to generate long term cash flows which are not only stable, but will grow over time.

We also announced the acquisition of one of the largest gas station businesses in Canada for approximately \$410 million. Concurrently, we are entering into an agreement with Imperial Oil to introduce the premier Mobil fuel brand to this portfolio. This brand should have a strong influence on these operations. The transaction is expected to close in the third quarter of 2017.

## Closing

We remain committed to being a world-class alternative asset manager, and investing capital for you and our investment partners in high quality, simple to understand assets which earn a solid cash return 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,

A handwritten signature in black ink, appearing to be 'J. Bruce Flatt', with a stylized flourish at the end.

J. Bruce Flatt  
Chief Executive Officer

May 11, 2017