

# Creating Value for Shareholders

We create shareholder value through two distinct but interrelated activities: increasing the earnings profile of our asset management business and increasing the value of the capital invested from our own balance sheet.

## ASSET MANAGEMENT

Alternative asset management businesses such as ours are typically valued based on multiples of their fee related earnings and performance income. Accordingly, we create value in this part of our business by increasing the amount and quality of fee related earnings and carried interest, net of associated costs. This growth is achieved primarily by expanding the amount of fee bearing capital with larger and more varied funds, earning performance income such as carried interest through superior investment results and maintaining competitive operating margins. For purposes of measuring value creation and business planning we apply a 20x multiple to fee related earnings and a 10x multiple to net unrealized carried interest.

## INVESTED CAPITAL

We value our invested capital based primarily on a combination of quoted market prices for listed investments and IFRS book values for unlisted investments. Listed investments represent approximately 85% of our invested capital. For purposes of measuring value creation and business planning, we substitute BPY's IFRS value for its market price because its balance sheet assets are almost entirely carried at fair values that are adjusted quarterly, and we adjust the IFRS we value of our unlisted North American residential business to reflect its privatization value. We measure value creation in this part of our business by the change in the value of our invested capital over time.

### Asset Management

FOR THE YEAR ENDED DEC. 31, 2017 (\$ MILLIONS)	Actual		Current <sup>1</sup>
	FFO	ENI	ENI
Fee revenues	\$ 1,368	\$ 1,368	\$ 1,475
Direct costs	(472)	(472)	(590)
Fee related earnings	896	896	885
Realized carried interest	99	n/a	n/a
Unrealized carried interest	n/a	1,280	1,000
Direct costs related to carried interest <sup>5</sup>	(25)	(352)	(300)
Carried interest, net	\$ 74	\$ 928	\$ 700
<b>Total (Asset Management)</b>	<b>\$ 970</b>	<b>\$ 1,824</b>	<b>\$ 1,585</b>

### Invested Capital

AS AT DEC. 31, 2017 (\$ MILLIONS)	Quoted <sup>2</sup>	IFRS <sup>3</sup>	Blended <sup>4</sup>
	BPY	\$ 12,079	\$ 16,653
BEP	6,576	4,143	6,576
BIP	5,273	2,098	5,273
BBU	3,034	2,064	3,034
Other listed	4,015	4,174	4,015
Total listed investments	\$ 30,977	29,132	35,551
Unlisted investments		4,797	5,885
Corporate capitalization and working capital		(10,189)	(10,189)
<b>Total (Invested Capital)<sup>6</sup></b>	<b>\$ 23,740</b>	<b>\$ 31,247</b>	



1. Current ENI is based on fee bearing capital as at February 15, 2018. Refer to Part 3 – Operating Segment Results for further information
2. Quoted based on December 31, 2017 public pricing
3. Total IFRS invested capital excludes \$312 million of common equity in our asset management segment
4. For business planning purposes, we consider the value of invested capital to be the quoted value of listed investments and IFRS value of unlisted investments, subject to two adjustments. First, we reflect BPY at IFRS values as we believe that this best reflects the fair value of the underlying properties. Second, we reflect Brookfield Residential at its privatization value
5. Direct costs related to carried interest included in FFO are realized carried interest and related cost in the year. Direct cost related to carried interest included in ENI are unrealized carried interest and related cost generated in the year
6. For business planning purposes, we value our asset management business based on multiples of expected fee related earnings and carried interest, net of associated costs. Multiples observed for similar earnings streams in the market. Actual multiples may vary