

Brookfield

TRANSCRIPT: Q2 2020 CONFERENCE CALL / WEBCAST

August 13, 2020 at 11 am (ET)

Corporate Speakers:

- Suzanne Fleming, Managing Partner, Communications and Branding
- Bruce Flatt, CEO, Managing Partner
- Nicholas Goodman, CFO, Managing Partner
- Bahir Manios, Managing Partner, Brookfield Infrastructure Group CFO

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brookfield Asset Management Second Quarter 2020 Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. Suzanne Fleming, Managing Partner. Thank you. Please go ahead.

Suzanne Fleming Brookfield Asset Management Inc. - Managing Partner

Thank you, operator, and good morning. Welcome to Brookfield's Second Quarter 2020 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer; Nick Goodman, our Chief Financial Officer; and Bahir Manios, CFO of our infrastructure business.

Bruce will start off by giving a business update, followed by Nick, who will discuss our financial and operating results for the quarter. And finally, Bahir will give an update on our infrastructure business. After our formal comments, we'll turn the call over to the operator and take analyst questions.

I'd like to remind you that in today's comments, including in responding to questions and in discussing new initiatives in 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 law. These statements reflect predictions of future events and trends and do not relate to historic events and are subject to known and unknown risks, and future events and results may differ materially from such statements. For further information on these risks and their 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 now I'll turn the call over to Bruce.

Bruce Flatt Brookfield Asset Management Inc. – CEO & Managing Partner

Thank you, Suzanne, and good day, everyone. Our business performed well during the quarter. And since we last spoke to you, we recorded our largest fundraising period ever. We raised \$23 billion across various pools of capital, the highlight of which was the \$12 billion of initial commitments for our latest flagship distressed credit fund. This was raised against the backdrop of the global economic shutdown, which impacted many businesses, including some of ours. But we are now seeing economies across the world slowly reopening. And while it could take well into 2021 for our full recovery, our impacted businesses are already showing signs of improvement. The success of our fundraising in the period highlights the scale and diversity of our product offering.

When we partnered with Oaktree last year as well as refocused efforts on growing our perpetual private fund offerings, we did so to round out the product offering to ensure we had products that were attractive to our clients across all cycles. This quarter exemplifies the benefits of this strategy as we were able to accelerate fundraising for flagship distressed debt funds and raised capital for a more fixed income like perpetual funds. A record level of fundraising means we now have \$77 billion of capital available to deploy into investments, and we expect the pace of investment to increase over the next 12 months as opportunities present themselves.

Overall, the increased levels of government debt that we have seen as a result of the economic shutdown, will have long-term effects on many things, the most important of which is that many countries around the world will have to offload spending onto the private sector and sell assets. This should bode well for the scaling up of our infrastructure and our renewable businesses. And we have Bahir Manios, CFO of our infrastructure business with us on the call today to give us an update on that business and where we are seeing opportunity. As government aid tapers, the private sector will also be increasingly in need of capital, and there should be many opportunities for us to invest across all of our pools of capital. This will include us putting funds to work in non-control investments in our recently created special investments program, distressed debt opportunities in our Oaktree funds and control investments within our property, infrastructure, renewable and private equity flagship funds. Our latest round of flagship funds is approximately 50% deployed in aggregate, and with the pipeline we see today, we should be back in the market for all of them in 2021.

Turning to interest rates. We have discussed over the past 12 to 18 months about what a low interest rate environment means for our fundraising. And we are seeing that play out in real time today with the capital raise since May. But with a zero-interest rate environment here, and it increasingly looking like it will be here for five years plus, this will also have a meaningful impact in a positive way on the real assets that we already own. The majority of our assets today have long-term fixed contracts, either long-leased property, contracted power or utility or utility-like assets. And with interest rates dropping, the value ascribed to these cash flow streams increases significantly. Just in the past few weeks, we have started to see bids for real estate and infrastructure assets at higher multiples than pre-Covid. While the majority of our investments are the long-term contracted assets, which I just mentioned, we do have some businesses that saw disruption from the shutdowns.

In our private equity business, we witnessed some businesses with sales down more than 50% with the shutdowns in April and May. But virtually, all our operations are now experiencing increased activity with some approaching comparable results to last year in July and August.

In our retail business, our U.S. retail centers were shut down by government mandate for two months. All but one reopened by June 30 with foot traffic now back to more than 50% of normal levels and improving every week. 85% of the stores in the retail malls are now open, rents are now being collected, and our teams are focused on discussions about collection for the shutdown period with some tenants. While a smaller part of our business, most of our hotels have now also begun to reopen. The largest hospitality business we own is called Center Parcs in the United Kingdom, which is experiencing higher forward bookings than at this time last year, largely as a result of it being a domestic offering when international offerings are hard to access. As another anecdote, we are experiencing significantly increased sales in our U.S. single-family housing operations. As an example, last year, on average, we sold 65 homes per week. To put that into perspective, in April, it was close to zero. And today, we're selling between 80 and 100 homes per week. That is 20% to 30% higher than last year. And I would note for you that virtually all single-family builders have similar scale are experiencing this, not just us. This has further flowed to wood products, where prices have tripled since March. This bodes well for our investment in Norbord, which has similarly tripled its price in the stock market since March and the company looks like it has significant room to generate super profits this year.

As it relates to office buildings, our views are laid out in the shareholder letter. And in the next short while, we will post a client white paper on the subject for you to review on our website.

Simply stated, our view is that companies use their offices to foster culture, collaboration and development of talent. This cannot be replicated from a home office. Further reinforcing these views, I would note a few facts. First, our Seoul office buildings, which were among the first shutdown globally, are now back to 90% employee occupancy. And I would note for you that Korea is a very tech-savvy place. Shanghai is back to almost the same. In addition, we collect badge swipes on employees at our office properties. This totals a million people who work in our properties globally. This is a very large sample of global office workers. The overall information is powerful as we know who comes and goes for how long, when and how they move around. What I can tell you is that virtually every day on average, since May 1, the numbers in the office have increased. This gives us hard data to base our views on. Therefore, please consider those comments when you read news, which suggests that nobody will ever go back to the office, ironically, often provided by some of those who benefit from people staying at home. So please consider those views – our views are based on hard data and very extensive discussions with large groups of corporations who we lease space to, not nearly conjecture.

With those comments, I would gladly turn it over to Nick Goodman, who will cover our results for the quarter.

Nicholas Goodman *Brookfield Asset Management Inc. – CFO & Managing Partner*

Thank you, Bruce, and good morning, everyone. So we had strong results during the second quarter, especially when considering the economic environment. Our asset management earnings continue to exhibit very strong growth, and most of our operating companies showed their resiliency. We generated

\$605 million of cash available for distribution or what we call CAFDR during the quarter, a 20% increase from the second quarter of 2019 when excluding the impact of carried interest. A strong cash generation, combined with corporate and third-party fundraising activities, has increased our deployable capital to \$77 billion. This positions us well to pursue growth opportunities in the coming months, quarters and years. 75% of our businesses are backed by contractual cash flows from utilities, renewable power, offices, data infrastructure and critical service infrastructure and were, therefore, unaffected by the economic shutdown. However, we did have some businesses that reported no income for the quarter. And we recorded some non-cash revaluations and net income to reflect the current environment. This resulted in a net loss attributable to shareholders for the second quarter of \$656 million or \$0.43 per share. But more relevant to the operating performance of the business is our funds from operations, or FFO, which was \$1.2 billion for the quarter or \$0.73 per share.

Starting with our asset management results. Fee-related earnings before performance fees increased by 23% to \$324 million for the three-month period and totaled \$1.3 billion over the last 12 months, an increase of 41% from the same period in 2019. The growth in our fee-related earnings is a reflection of the latest round of fundraising on our flagship funds, contribution from our partnership with Oaktree and the growth of our perpetual strategies. Today, our fee-bearing capital totals \$277 billion, and our annual fee revenue stand at \$2.8 billion. We also cover further \$29 billion of capital that will become fee-bearing when invested. When fully deployed, this capital will generate approximately \$315 million of incremental fee revenues annually.

Our unrealized carried interest balance stands at \$2.9 billion, largely consistent with the first quarter. This is a reflection of the stability that our investments provide to our clients. Most of the assets that we manage are privately owned and generate stable cash flows with strong downside protection of capital, making them resilient and protected from public markets. While we expect to crystallize the unrealized carried interest, the slowdown in economic activity did delay a number of our planned asset sales and, therefore, delayed carry realization. That led to a reduction in our realized carried interest this quarter, although we did recognize \$76 million of carry in the quarter, and we have recognized \$499 million over the last 12 months.

A number of the sales processes that were delayed are now restarting, and we retain our conviction in the fact that both the high-quality nature of the assets and their cash flows, combined with the low interest rate environment, makes these assets and our businesses very attractive to prospective buyers. In the last two months, we've completed secondary offers for both BEP and BIPC. Combined, these two transactions allowed us to realize approximately \$700 million of cash proceeds to further enhance our liquidity that we will look to redeploy into other opportunities over time. We continue to maintain significant holdings in each of these companies and continue to view each of the outstanding businesses to invest in and believe these transactions will further support their growth through increasing the public flow and liquidity of the underlying units and shares. And importantly, it also shows the vast liquidity that we hold at Brookfield Asset Management as none of these investments, which can on a day's notice return to cash should we wish, are counted in our liquidity numbers.

Turning to our balance sheet investments. Excluding disposition gains, FFO for the quarter was \$333 million. The decrease compared to the prior year was primarily caused by the disruption from the

economic shutdown, which lowered earnings at our modest number of hospitality assets and other investment properties, in particular, our retail investments as well as at certain directly held investments. As mentioned, we believe our earnings will return to normalized levels as the economy progresses on its path of recovery. In the quarter, we recognized disposition gains of \$473 million, primarily from the aforementioned secondary offering of BEP units.

Today, our liquidity and capitalization remain very strong. In addition to \$61 billion of uncalled fund commitments, we have approximately \$16 billion of core liquidity across the group, including nearly \$6 billion directly at BAM for a total of \$77 billion of deployable capital. And if you were to include an estimate of our non-core holdings of our affiliates, that would bring that number closer to \$90 billion. And our balance sheet remains conservatively capitalized with an implied corporate debt to market capitalization ratio of 13% at the end of the quarter, and average remaining term on our corporate debt of 11 years. And we have no individual piece of debt maturing before 2023.

Finally, I'm pleased to confirm that our Board of Directors has declared a \$0.12 per share dividend payable at the end of September.

With that, I will turn the call over to Bahir Manios.

Bahir Manios *Managing Partner, Brookfield Infrastructure Group CFO*

Thank you, Nick, and good morning, everyone. Many sectors were hard hit following the shutdown of economies around the world. However, the infrastructure sector demonstrated one of its most coveted characteristics, being its highly resilient cash flows. While it's too early to comment on learnings from this challenging period, our conviction regarding the attractiveness and sustainability of the infrastructure sector has been reinforced. It is with considerable pride that we can report that every operating business owned by Brookfield Infrastructure was deemed an essential service and thus has been operating throughout this period.

Our assets performed well on a local currency basis, and only a very small portion of our overall revenue was affected by this global economic shutdown. We currently estimate that the true economic impact of the shutdown represents less than 2% of the infrastructure group's overall cash flows. Within the infrastructure platform, we have a tremendous amount of liquidity across Brookfield Infrastructure Partners, our publicly listed vehicle and our private funds, which today sits at close to \$20 billion, that is available for deployment. Before I touch on where we're seeing opportunities in the current environment, I thought I'd provide an update on two of our infrastructure private fund strategies that have had a great deal of success recently both from a fundraising and investment perspective, thereby demonstrating the diversity of not only the sources of capital that are available to us but also the types of transactions that we're taking part in. These are our super core open-ended infrastructure fund and our closed-ended infrastructure debt funds. Our super core fund is focused on long-term, very stable, almost bond-like cash flows and was established at the end of 2018. Since inception, we've raised over \$2.6 billion, including through this recent market volatility and economic uncertainty.

We truly believe this business has great potential and could grow in the size of tens of billions of dollars over the next 5 to 10 years. On the infrastructure debt side, we raised our first two debt funds being a

global fund and a smaller European-focused fund in 2016 and 2017 with the aim of investing in the mezzanine debt of infrastructure companies that have stable, regulated or contracted cash flows.

Over the past few years, we focused on debt investments across the transport, data, energy and renewable power sectors, and these continue to be areas of focus for us. We recently completed an initial or first close for the next vintage of this fund series, raising \$1.8 billion of capital.

From a new investment perspective, we believe this is an attractive environment for Brookfield Infrastructure to source opportunities for the foreseeable future. The economic cost of the downturn will be that many industrial companies and all governments will be significantly more indebted. Once the immediate measures to stabilize economies and businesses have been implemented, governments and businesses alike will need to evaluate alternatives to source capital to repay excessively high debt levels. You probably have heard a number of us speak about this in the past, about the secular trend of governments seeking investment from the private sector to acquire and build out infrastructure. With inflated deficits, along with the desire to stimulate economic activity, we expect the impetus for this to become even more pronounced. In addition, many corporations will be susceptible to tighter credit markets, and they will need to reduce debt levels through asset sales.

We're currently focused on executing several medium-sized tuck-in acquisitions for various businesses in our energy, transport and data operations. As a result of the potential synergies, we believe that these acquisitions should be highly accretive, if secured. Furthermore, we're evaluating numerous new investment opportunities in all of our key regions. An ongoing area of focus for us is data infrastructure. We thought we'd spend some time on today's call discussing our progress and views on this exciting high-growth asset class.

We're currently witnessing a once in a 100-year investment upgrade cycle. Aging broadband copper infrastructure is no longer able to cope with the demands imposed by an increasingly interconnected and always-online world. These networks are being replaced by new state-of-the-art fiber infrastructure, which can support increases in data demand, lower latency and faster broadband speeds. Concurrently, wireless networks are undergoing a transformation to support the enhanced connectivity expected from 5G. On a combined basis, these upgrades are estimated to require trillions of dollars of investment over the next five to seven years. Historically, these investments were funded by telecom operators. Given the increasing demands on their capital, these operators are now seeking new funding partners. They're increasing their reliance on neutral-host shared-infrastructure models to alleviate pressures on their balance sheets. As a result, the investable universe for data infrastructure is expanding in a very meaningful way. Our original thesis for investing in data was based on the belief that data infrastructure assets have utility-like characteristics with favorable growth trajectories that play a central role in connecting people, places and objects. The importance of these networks was further reinforced during this recent shutdown as access to robust and reliable connectivity became a basic need to perform routine activities, such as working from home, remote learning and telemedicine. This was exemplified as an example on our U.K. fiber networks, where average data consumption increased by 40% compared to the same period last year. Over the past five years, we've established a leading global data infrastructure business.

As we expand our current business by either building and/or acquiring high-quality data infrastructure assets, we're well positioned to leverage our expertise in two key areas: first, we have investments that span our entire connectivity value chain comprised of one of the largest power portfolios with a contracted base of over 180,000 sites in six countries. We also own a growing global data center business with approximately 70 sites in 13 countries that are able to serve the scale and latency requirements of a diverse customer base. And finally, extensive fixed and wireless networks that serve over 2.5 million residential and enterprise customers.

There are very few investment managers that operate across the complete value chain that I just described. We, on the other hand, have firsthand knowledge on deploying an operating network such as 5G and fixed wireless access across several geographies. We can leverage this operational know-how and unique insights to capitalize on new trends as they emerge. Second, there are significant number of opportunities, which are embedded across our broader Brookfield business. Continued adoption in cloud computing is expected to require an incremental approximately 30 gigawatts of data center capacity over the next 10 years. At the same time, these operators are focused on achieving their stated carbon reduction targets over the next 10 years. We are very well positioned to help support these goals.

We're exploring the potential to bundle data centers and renewable power and provide a turnkey green data center solution. This would differentiate us or our offering relative to more traditional data center operators and could be a game changer for us. We're also pursuing several other initiatives, including leveraging our existing rights of way to deploy fiber and our existing real estate portfolio to deploy in-building wireless solutions. We're very excited by this asset class and believe that there will be significant opportunity to at least double the size of our existing business, given that we're still in the very early stages of this massive investment cycle that I touched on earlier.

In general, we would describe our current investment posture, especially with respect to larger size new investments as optimistically patient. We believe that a large-scale value opportunity will arise over the next 12 months. We're reminded of our experience during the global financial crisis in 2009, 2010, when the transformative Babcock & Brown Investment, or BBI, that we made did not present itself to us until almost nine months after the Lehman bankruptcy. We passed on many opportunities before the right one came along.

We'll also be focused in the second half of 2020 and into 2021 on executing our capital recycling program. As both Bruce and Nick alluded to earlier, we're confident that the merits of investing in mature de-risked cash flow producing infrastructure assets will be more appealing to prospective buyers than ever before, particularly with the expectation for low interest rates for the foreseeable future.

Lastly, before I conclude my remarks, we're very pleased with the market's response thus far to Brookfield Infrastructure Corporation, or BIPC, which was listed on the Toronto and New York Stock Exchange on March 31st of this year. BIPC was recently added to the Russell 2000 U.S. Index. We intend to support the growth of BIPC's public float over time to improve the company's trading liquidity, and the first initiative in this regard was recently undertaken that Nick touched on in his remarks earlier.

And so with that, thanks for your time this morning, and I'll turn the call over to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Bill Katz with Citigroup.

William Raymond Katz *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials*

Okay. Thank you very much for the added disclosure on this morning's discussion. Bruce, maybe one for you. Just as you mentioned that you're sort of bringing forward the flagship opportunity. In the past, you've commented on sort of incremental sizing. I was sort of wondering, just given all the ins and outs over the last six months, seven months of the year, what's going on with sort of virtual roadshows, how are you feeling about allocations and maybe the sizing of these successive funds? And then when you say '21, is this the beginning of the year or second half of the year? How are you sort of figuring against the pace of deployment?

Bruce Flatt *Brookfield Asset Management Inc. - CEO & Managing Partner*

So it's Bruce. I'll answer, and Nick can add some things if he thinks of something else. But, first, maybe going from back to front. On timing during the year, there are three funds. You never know what the deployment is. So we said '21. I suspect it could be anywhere from later this year for one of the funds through to the end of next year, depending on deployment within each of the different funds. So it all depends on our deployment of capital and opportunities. So the greater number of opportunities we find out, the deployment will be quicker.

As to sizing, our view is that as our platform gets larger, the opportunities that come to us are bigger and, therefore, the capital that we can deploy with a competitive advantage in scale continues to increase. So I think you'll see our funds will be larger at some point in time. After 10 years or 15 years of increasing the scale of these funds, at some point in time, they may taper off in the quantum of increase. But at the current time, we don't see that and continue to see large places -- large opportunities to put money to work.

Operator

Our next question comes from Cheryl Radbourne with TD Securities.

Cheryl Radbourne *TD Securities Equity Research - Analyst*

In terms of the zero interest rate environment and the pressure that's likely to put on pools of capital that you need to earn, call it, high single-digit returns, clearly, your recent fundraising would suggest that some clients have reacted already, but how long would you expect it to take for portfolio allocations to adjust more broadly such that we see a larger migration out of traditional fixed income and into alternatives?

Bruce Flatt Brookfield Asset Management Inc. - CEO & Managing Partner

So I would just say, I think the floodgates have only started to open. And the reason is that if you're trying to earn 5%, 6%, 7%, 8% within an institutional pool of money, there really is no hope to do that with traditional fixed income. And as a result of that, other than holding cash for liquidity purposes or short bonds for liquidity purposes or some form of long bonds just for safety, all other pools of former fixed income allocations are going to come to lower risk alternatives.

And therefore, that's going to enhance private credit opportunities. It's going to enhance real estate, infrastructure and all the products that we offer.

So I think you've started to see – what I would say is we've been seeing it for 15 years. It's accelerated over the past five years, and it's even going to accelerate more now if we've gone from 2% to 3% interest rates to and zero -- and when I say zero, it's zero in almost every country in the world. And even in some of the emerging markets, we're down to 2% to 3% interest rates, which is even sending their stock markets and other alternative products they have up in value.

Cherilyn Radbourne TD Securities Equity Research - Analyst

Okay. And then in light of recent news, well, maybe you could comment just generally, on the extent to which you think that logistics may play a larger role in how some of the spacing your mall portfolio gets repurposed.

Bruce Flatt Brookfield Asset Management Inc. - CEO & Managing Partner

Yes. Look, I'd just say our view has been and still is that online retailers and store retailers are going to mesh together, and there's going to be one delivery system of products to customers, and that will include both deliveries to the door, picking up in locations and stores where people shop. And it will depend on the type of product that's being offered. And increasingly, that will include many other offerings. And we're at the forefront of conversions of portions of the real estate to both that and also to other uses within the centers. So I think there's a lot of change going forward. And for great real estate, it will be a very positive fact.

Operator

Our next question comes from Robert Lee with KBW.

Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst

I'm just curious, maybe the first question is on CAFDR, I guess, is what you call it. I guess, a year or so ago, you kind of talked about that doubling over a five-year period. And as that grows and particularly as the asset management business transforms with more third-party capital, that would, I believe, free up more capital, or to redeploying share repurchase or whatnot. And obviously, that weighs out. But can you maybe update us on your thoughts around the pace of cash flow growth and deployment of capital over time? Is that still part of the goal plan? Or do you just see that being set aside for a while?

Nicholas Goodman Brookfield Asset Management Inc. – CFO & Managing Partner

Rob, it's Nick. I don't think our outlook for CAFDR has really changed. I think our growth projections that we laid out were really aligned to step changes in the growth of the business, and we had a big step change with the last round of flagship fundraising. And I think as we embark on the next round of flagships with this latest distressed debt fund being the first of the four, if you will, that will be the next sort of step change growth. And in the meantime, we continue to grow the perpetual offerings, and that will contribute along the way. So I don't think anything has really changed from that outlook. We knew this year was going to be maybe smaller growth than last year, just given the path we're on, but nothing has changed. And I think the use of the cash has not changed significantly. We're generating, as you know, significant free cash flow from a combination of the asset management business and our invested capital, and we plan to use that to reinvest in the business to opportunistically grow the business. Like last year, most of that cash would have gone towards the Oaktree transaction, which retaining cash allows us to have that flexibility. We'll support the franchise. And then as we start to step through this and carry starts to pick up and realization picks up, then we will have excess cash that we will look to return to shareholders over time. So nothing has changed, I would say.

Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst

Okay. Great. And then maybe as my follow-up. Many of your U.S. peers have focused a lot of attention and resources on growing their insurance businesses or I should say they are acquiring insurance businesses, Athene, Global Atlantic. They've all done it something to different degrees, it seems. And now that you own a majority stake in Oaktree, which would seem to have a lot of the requisite credit skills, do you have any ambitions or thoughts about that as a future area for growth, expanding your insurance activities?

Bruce Flatt Brookfield Asset Management Inc. - CEO & Managing Partner

I think your last point is actually the most relevant one is that an insurance business is about putting credit to work. Small amounts can be put into more traditional alternatives that our franchise has largely been about. But credit is the biggest portion of it. And historically, our credit franchise was not that big.

So if we bought a big insurer, we would have a tough time putting the credit to work. With Oaktree, that opens up other opportunities for us. So it's something we may and could look at, and we do have the requisite skills to open up that opportunity. So I think it expands our universe of things we can look at to broaden the franchise if we so choose.

Operator

Our next question comes from Mario Saric with Scotiabank.

Mario Saric Scotiabank Global Banking and Markets, Research Division - Analyst

Just two quick follow-up questions. One on successor fundraising – sorry, one on real asset valuation in a zero-interest rate environment. So just on the successor funds, in the past, sizing has been driven in part based on actually the potential acquisition pipelines. So you have noted government expectations to sell assets, given the unprecedented spending, but also a fairly quick recovery in public market valuations. So I guess my question is just how the size of the acquisition pipeline changed post the start of the Covid

pandemic? And how that impacts your confidence level in terms of achieving your \$100 billion fundraising target.

Bruce Flatt *Brookfield Asset Management Inc. - CEO & Managing Partner*

Look, I'd say it's highly probable that the opportunity for us to, a) raise capital, and, b) put money to work is greater today than it was 12 months ago. And that's largely because our customers, on one hand, need our services more and governments or corporations are more indebted today, and therefore, they need our services more. And as a result of it, I'd say the combination of the two is a much more positive macro backdrop to what we do, despite short-term disruptions over the last six months and maybe another six months. But certainly, the global backdrop is very positive to our business.

Mario Saric *Scotiabank Global Banking and Markets, Research Division - Analyst*

Understood. Okay. And then secondly, just in terms of higher real asset valuations, in the letter to shareholders you kind of referenced to an office building example involving long-term good covenant cash flow. So having the expected rise in value implies a lower discount rate or cap rate.

And Bruce, in the prepared remarks, you noted that you're starting to see higher multiples being paid in the private market relative to pre-Covid levels. But generally speaking, what do you think is the big catalyst for more broad-based discount rate or cap rate compression to incur in the private market assuming investors are comfortable with in-place cash flows for those real assets?

Bruce Flatt *Brookfield Asset Management Inc. - CEO & Managing Partner*

Look the comment I just made in the remarks, and I'd just add to it is that we're starting to see that occur. But many investors today haven't decided that it's time to put money to work. And as the comfortability of the fact that we're going to come through this situation that we've been in gets greater, and interest rates are low, you will start to see more money being put to work and higher valuations paid for assets that fit that category. And you're already seeing it in the stock markets. But you'll start seeing in the private markets. In the private markets, logistically, it was difficult for most people to do things over the past three months.

Operator

(Operator Instructions)

Our next question comes from Andrew Kuske with Crédit Suisse.

Andrew M. Kuske *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research*

If you could maybe give us a bit of perspective about how your clients think about your super-core product and also your perpetual product. And are they thinking it more in the lines of an allocation towards, let's call it, fixed income plus? Or is it a real asset allocation to them?

Bahir Manios *Managing Partner, Brookfield Infrastructure Group CFO*

Andrew, maybe I'll take that one on – just on behalf of the infrastructure group given the recent success we've had with our super-core launch, which we've been doing now for about two-plus years. As I alluded

to in my remarks, we've raised about \$2.6 billion from clients and invested thus far \$1.6 billion and have a pretty active pipeline. And as I mentioned, we're targeting mature de-risked infrastructure with minimum volume risks located predominantly or exclusively in developed markets. We're targeting high single-digit type returns, with most of that coming from current yield. So that's a very important characteristic for our investors.

If you look at the pool of cap, where have we been raising this from, we have about 50 LPs thus far in the fund. Most of that is coming from smaller pensions and insurance companies, average ticket size is around \$50 million or so. And so it doesn't really overlap with our other Brookfield infrastructure core series of funds as well.

So from an infrastructure perspective, that's sort of the game plan for us. And as I mentioned in my remarks, we expect this strategy to grow materially in the next few years.

Andrew M. Kuske *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research*

Okay. That's great. I appreciate that extra color. And then maybe the follow-up. You do see the two markets as being very distinct. The lower return stabilized long-term contracted cash flows for super-core and then more opportunistic in your traditional flagship infrastructure fund. It's the first part about it, but is there a potential interplay in the future of some of the assets that you have stabilized in the flagship funds that eventually may be transitioned over time to super-core kind of products.

Nicholas Goodman *Brookfield Asset Management Inc. – CFO & Managing Partner*

Andrew, it's Nick. Listen, I think what we look to do in the flagship funds is we buy assets and where we believe we can bring our operating expertise to drive outsized returns. And I would say often when we stabilize them and sell them, sometimes they would then go for returns that would be tighter than our super-core funds. So that doesn't always work. The obvious answer is we're obligated to strike best value from our flagship funds. We will look to do that. And there are some synergies potentially with using the super-core capital when looking at acquisitions and carving our portfolios. But the game plan is not to sort of buy assets in one pool of capital to sell to another, we'd look to manage them independent with each other.

Operator

Our next question comes from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi *BMO Capital Markets Equity Research - Analyst*

Okay. I just wanted to see if you could provide a bit more color just around the fundraising environment. I don't know if you could – obviously, there wasn't an overlap between your existing funders and the Oaktree new geographies. There's been a little bit of kind of noise around capital flows and restrictions, maybe in certain jurisdictions and oil prices and the like. So I'm just curious if you could give us a bit more color as to why it was so successful, if you will. And what sort of optimism you have towards that success continuing, on the zero-rate environment, obviously?

Bruce Flatt Brookfield Asset Management Inc. - CEO & Managing Partner

Yes. Look, I would just say a couple of comments. First one is that those that have established franchises in periods of time where there is disruption, get all money. And I guess the corollary is if you had a new funder, if we're going to go try to raise a new fund, it was virtually impossible for someone to do that, meaning a new strategy or a new manager. And the reason is because you couldn't visit somebody's office, talk to them, explain your situation and try to coax them into your fund, if you didn't know them already. So the established brands, ours being one of them, ours, I'll call it, Brookfield Oaktree, being one of them, is going to get it and the other established brands got all the money that was probably allocated in the last four months.

So the first point is, in these types of situations, money has gone to established brands versus new types of situations. Secondly, the products that we happen to have today that are on offer are exactly what our clients want. They are fixed income alternatives that are a supplement to their portfolios, which they're now looking at 0% returns. And secondly, it's distressed credit, which appears like it should be over the next 12 months, one of the great places to invest capital into. And therefore, that was attractive to institutions. So I'd just save it. In the short while, we have the right products for the market. And I think when we come with our next flagships, like always, these are strategies that we've deployed for many years, and we should be able to attract capital for those. So I think the success in the last three months is just the fact that we had good products in this period of time.

Sohrab Movahedi BMO Capital Markets Equity Research - Analyst

That's helpful, Bruce. And if I can just have a quick follow-up on that. When you do come back with, or when you do return for flagship fundraising, is there any reason to believe that you may have to alter hurdle returns or fee rates or any of that kind of stuff as far as the structure of those are concerned and future cash flows, whether it's management fees or performance fees or carried interest or whatever for Brookfield Asset Management?

Bruce Flatt Brookfield Asset Management Inc. - CEO & Managing Partner

So I would just say that to date, we have not experienced any of that. No one can know the future, but our services are attractive to our clients, and we haven't had that issue at the current time, and we don't expect it in the future.

Operator

I'm not showing any further questions at this time. I would now like to turn the call back over to Suzanne Fleming for any closing remarks.

Suzanne Fleming Brookfield Asset Management Inc. - Managing Partner

Thank you, operator. And with that, we'll end the call. Thank you for joining us today, and we look forward to seeing you at our Investor Day in September.

We expect we'll be there in person in New York, and we'll have room for some of you who wish to join us in person. As we did last year, we'll be live streaming the day for those who aren't able to join us in person. We look forward to seeing you then. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.