

Brookfield

TRANSCRIPT: Q3 2020 CONFERENCE CALL / WEBCAST

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Corporate Speakers:

- Suzanne Fleming, Managing Partner, Communications and Branding
- Bruce Flatt, CEO, Managing Partner
- Nicholas Goodman, CFO, Managing Partner
- Mark Murski, Managing Partner, Infrastructure

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brookfield Asset Management Third 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 Third Quarter 2020 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer; Nick Goodman, our Chief Financial Officer; and Mark Murski, a Managing Partner in our Infrastructure business and Chief Operating Officer of our North American operations. 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, Mark will talk about infrastructure's Enwave 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. They're 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

Thank you, Suzanne, and good morning, everyone, on the call. Starting with operating performance in the third quarter. Nick will get into it in detail, but I'll just make a few comments.

We earned record operating FFO during the quarter, in fact, higher than any other quarter in our history. This demonstrated the strength and resiliency of our combined asset management franchise and the quality of our operating businesses today. And I would also note that we were just starting our way out of this recession, and not all of our businesses are performing where they should be.

The strong operating performance across these businesses was driven by excellent results in several of our private equity businesses, some of which benefited from strong demand and pricing from new housing starts, which snapped back after the lockdowns in the spring. Consistent with previous quarters, our infrastructure and renewable businesses continue to deliver very steady results backed by 100% availability of all of those assets. Those businesses that did see volume decreases in the first half of the year, such as our ports and toll road businesses, saw recoveries during the quarter as governments eased restrictive measures.

Within our real estate business, office rent collections remained at normal collection levels, and investment demand for this asset class is strong and soon to get stronger. Just this last month, we entered into an agreement to sell one of our London office properties at a 9% premium to the price we paid for half the property just 12 months ago. For those of you familiar with real estate jargon, it was at a sub-4% cap rate.

Across our retail mall portfolio, foot traffic is increasing, and more importantly, customer spending continues to increase as does rent collection each month. For the month of October, we were above 70% collection across our malls. And a good portion of the difference is from tenants that are open, but we are still discussing arrears from the lockdown period. We're also seeing a return of occupancy at most of our hospitality assets as we continue to open up across the portfolio.

Of course, nothing is ever perfect. And in some spots, we've taken a few steps back. But bottom line is that economies are on the mend and assets are coming back from their induced shutdowns.

Turning to our asset management franchise and fundraising. We raised \$18 billion of private capital during the quarter, including over \$12 billion towards the previously announced first close of our latest distressed debt fund and \$6 billion of commitments across a growing number of other strategies. A few examples include our European core-plus real estate fund that closed during the quarter, raising just over EUR 1 billion and exceeding its initial target, and our second vintage private infrastructure debt fund, which has raised nearly \$2 billion to date, already double more than the previous fund. The success of our recent fundraising reflects the investment themes that we're seeing in the market today with investors moving capital out of government bonds and into asset classes with low volatility and proven income to supplement their portfolios.

Today, we have over \$75 billion of liquidity or dry powder across our private and public entities available for new investments. We see opportunities to deploy this capital beginning to pick up. In March, when the shutdown started, governments were able to bridge bond and equity markets to get businesses through a period of time. But those who were in bad financial situations to begin with or borrowed too much money over the last nine months will soon need equity. Many of them will have to be recapitalized in some form. And given our significant amount of capital to put into these opportunities, we are ready for it. With the pipeline of deals that we are currently working on today, we expect to be back into the market soon with our next round of flagship funds, starting with a real estate fund in early 2021.

Turning briefly to our own corporate cash deployment. Over the last few months, we funded a number of new areas, including reinsurance, which I'll discuss in a moment. We also allocated approximately \$1 billion to purchases of BPY, whose current trading price does not reflect anywhere near the value of the high-quality portfolio of real estate that it owns. This is similar to the current trading price of Brookfield Asset Management. And given the discount widened recently due both to increases in value of our assets and share price declines, we were repurchasing BAM shares in the last month, and we'll continue to do so as long as the shares trade at meaningful discounts to our view of underlying value.

Lastly, and before I turn it over to Nick, at our Investor Day in September, I touched on a number of new strategies that we believe will be the next large areas for growth for us over the next decade. One of those strategies is reinsurance. As we looked at the reinsurance space over the last five or 10 years, we were cautious with our approach, particularly in an environment of declining interest rates that heightened the risks of locking in long-dated liabilities at relatively high interest rates. But today, with interest rates globally at essentially zero, we believe that the risk of reinsuring long-tail liabilities is the lowest it has been in our lifetime. And it's therefore an opportune time to provide capital to insurance platforms and build our reinsurance business.

Over the past few years, we have seeded a few smaller insurance businesses on our own balance sheet as we built up expertise in the space. But last month, we entered into a strategic partnership with American Equity to reinsure \$10 billion of their fixed annuity policies. We believe our alternative asset strategies will deliver long-term value to this portfolio. And hopefully, other companies will consider similar partnerships with us going forward.

In order to set up these growing operations in the most effective form, we also announced our intention to create a new listed entity, which will be named Brookfield Asset Management Reinsurance Partners (BAM Reinsurance), which will be distributed to you as a special dividend. This new entity will be designed to enjoy all the benefits of BAM as a paired security, and all the upside created in reinsurance will be shared with all BAM and BAM Reinsurance shareholders. We expect that this new share will replicate the success of pairing our Brookfield Renewable and Infrastructure corporations that were created earlier this year. We hope to complete the spin-off of BAM Reinsurance partners sometime in the first half of 2021, subject, of course, to all the necessary regulatory approvals.

Sometime in the future, once reinsurance is more mature, this pair could be turned into a separate entity. But for the time being, it will require the resources of Brookfield to grow. In the interim, it will be set up

efficiently for operating the business and will also enable you to choose which security of Brookfield Asset Management is best for you to own in your own capacity.

So with those comments, I will turn it over to Nick Goodman, who will cover our results in more detail for the quarter.

Nicholas Goodman *Brookfield Asset Management Inc.* - CFO

Thank you, Bruce, and good morning, everyone.

As Bruce touched on earlier, our financial results were very strong in the third quarter. Funds from operations or total FFO was \$1 billion for the quarter or \$0.65 a share, which was a 26% increase over the prior year quarter. Our operating FFO, which excludes the impact of disposition gains and realized carried interest, was a record \$850 million in the quarter or \$0.53 per share. And this really reflects the resiliency of our operating businesses and the growth in our asset management franchise. All of this resulted in income to shareholders of \$172 million or \$0.10 on a per share basis. And while this is lower than usual due to some lagging effects of the shutdown, we do expect the fourth quarter and 2021 to return to close to normal levels.

Within our asset management results, fee-related earnings increased by 22% to \$372 million for the three-month period and totaled \$1.4 billion over the last 12 months. That's an increase of 36% from the same period in 2019. This growth is a reflection of the record fundraising and deployment across our long-term and perpetual private funds, growth in our listed affiliates and a full year's contribution from our credit business.

Today, our fee-bearing capital totals \$290 billion, and our annual fee revenue stands at \$3 billion. We also have approximately \$30 billion of additional capital that will become fee-bearing when invested, and that should generate approximately \$300 million of incremental fee revenues annually when fully deployed.

In the quarter, we generated \$703 million of gross carried interest, bringing our unrealized carried interest balance to \$4 billion. This is reflective of value enhancements within various operating businesses in our private funds and value uplifts on publicly traded securities within our credit strategies. We recognized \$42 million of carried interest during the quarter, and that's \$482 million over the last 12 months.

Transactions have slowed over the last six months, as you would imagine, but we are now seeing the pipeline of deal activity as both private and public markets pick up. And we expect to realize an increasing amount of carried interest in the near future as we complete the monetization of assets within our more mature flagship funds.

Turning to invested capital. Excluding disposition gains, FFO for the quarter was \$478 million, an increase of 34% from the prior period. The increase was driven by excellent performance within some of our private equity businesses, most notably Norbord, and similar strong performance within our portfolio of financial assets. We also saw a 50% increase in home sales compared to last year at our North American residential homebuilder, and this should translate into increased FFO over the next few quarters as the home sales

are delivered. Finally, our FFO benefited from the contribution of newly acquired assets and same-store growth across a number of our segments.

Since we last reported, we successfully completed secondary offerings for a portion of our holdings in both BIPC and BEPC. These securities have seen tremendous demand since their spin-offs, and these transactions should further support liquidity in these shares by increasing the public float. Our balance sheet remains a significant strength for us with many investments that can be turned to cash on a day's notice that were not counted in our liquidity numbers. Through these two transactions, we were able to unlock approximately \$500 million of liquidity, which we can look to redeploy into other opportunities over time. We do continue to maintain a very significant holdings in both of these companies and continue to view each of those – view each as outstanding businesses to invest in.

Our strong results led to \$747 million of cash available for distribution or what we call CAFDR during the quarter. That's a 37% increase from the third quarter of 2019 when excluding the impact of carried interest. On a last 12-month basis, we generated a record \$2.8 billion of CAFDR, which highlights stable and predictable nature of our cash flows through all market cycles. This cash flow continues to bolster our liquidity, which we look to reinvest in the business, for example, to strike new investment strategies such as insurance or technology or over time, will be returned to shareholders.

Over the last 12 months, we've returned over \$1.3 billion of capital to our shareholders through dividends and share repurchases.

Today, our liquidity and capitalization remain very strong. In addition to \$60 billion of uncalled fund commitments, we have approximately \$16 billion of core liquidity across the group, including \$6 billion directly at BAM. And that's for a total of \$76 billion deployable capital. After the quarter end, we further enhanced this liquidity through the issuance of a 60-year \$400 million green subordinate note at 4.625%, proceeds of which will be used to fund eligible green projects.

Including the new issuance, our balance sheet continues to be very conservatively capitalized with a corporate debt to market capitalization ratio of 14% and an average remaining term on our corporate debt of 14 years. And we have no individual piece of debt maturing before 2023.

Finally, I am pleased to confirm that our Board of Directors has declared a \$0.12 per share dividend payable at the end of December. And we look forward to giving you another special dividend next year, as Bruce described.

With that, I will now turn the call over to Mark Murski.

Mark Murski *Brookfield Asset Management Inc. - Managing Partner of Infrastructure*

Thank you, Nick, and good morning, everyone. I'm pleased to join you today to tell you about our North American District energy utility called Enwave and the evolution and growth that we have achieved in this business. Enwave, which is held in our early vintage infrastructure flagship funds, is a great case study on how we identified and acquired a leading and sustainable energy business for value and used our

operating expertise, access to capital, knowledge and expertise within adjacent asset classes to grow the business and create significant amounts of value.

First, let me start with a quick overview of district energy. District energy refers to large-scale networks of heating and cooling systems that generate, store and share different forms of energy through individual buildings in a district. Users benefit from the cost efficiency and full redundancy of a central energy system, thus allowing them to redeploy their capital and space into higher and better uses.

Today, district energy is a key driver of the sustainable growth of cities globally. This is because 70% of the world's energy is consumed in cities today, and 50% of that energy is used for heating and cooling. This creates a meaningful opportunity for district energy systems to efficiently and effectively heat and cool our buildings while contributing to sustainability goals by deploying a communal, low-carbon green energy technology across broad networks of pipes through major cities.

Speaking specifically to Enwave, in 2012, we had the opportunity to acquire the business, which was and still is one of the most unique district energy utilities in North America, if not the world. Enwave is the largest geothermal cooling district energy system in the world and offers the cleanest form of cooling to be harnessed, specifically deep lake water cooling from Lake Ontario at the foot of the city. This deep lake water cooling technology is about 2.5x more efficient than conventional cooling and leads to a 90% reduction in energy usage compared to conventional heating and cooling systems.

At the time, the business was serving a small subset of hospitals, data centers, offices and residential buildings in the Toronto downtown core, and the growth aspirations were modest and limited to the local market. We acquired the business with a view that we were, a) buying a great existing business with very strong in-place cash flows and a strong organic growth potential; and b) we could leverage the economics, social and environmental qualities of the renewable energy to grow the footprint of the business by 3 to 5x in an accretive and sustainable manner.

What we learned in very short order was that the attributes of district energy were even better than we had underwritten. In addition to the clear high barriers to entry, which is an important characteristic of all investments we make, the economics of district energy delivers significant value to customers in the forms of reliability, capital allocation, lower operating costs and sustainability. And from an operations perspective, utilization can materially exceed 100%.

Because of these distinct attributes, we were soon able to drive double-digit organic growth in the initial portfolio of assets that we acquired and achieved renewal rates over 99%. This early experience gave us the conviction that district energy is a superior asset class in the infrastructure space and shaped our plans to accelerate growth of the business into new geographies, especially given the significant market dislocation between price and value that we were seeing within the asset class at the time.

Over the past eight years, we've been active in acquiring some of the best district energy systems in the fastest growing and most populated cities across North America, including Seattle, Los Angeles, Las Vegas, Chicago, Houston and Toronto. From these acquisitions, we were also able to select the best talent and

add some key positions to form a top-tier management team, who in turn have been able to integrate and optimize our assets into one highly functioning entity and drive best practices, efficiencies and grow the Brookfield operating culture across the Enwave platform.

What we had at acquisition was a leading unregulated utility but one that had unutilized capacity due to the lack of a proactive sales culture. We applied structure to sales with targets and goals for organic growth and supplemented the team where needed and rewarded achievements along the way. During our ownership, we have been able to connect over 135 new buildings and grow EBITDA from \$26 million in 2012 to over \$200 million today on a run rate basis. This is a compound annual growth rate of 21%. 13% of that growth or \$115 million of annual EBITDA was driven organically. For those less familiar with infrastructure asset class, this level of growth for utility is unparalleled. And this was all completed while maintaining an investment-grade rating.

Overall, we believe we have generated approximately \$3 billion of value. It is our expectation we will generate a 20% to 30% IRR in this investment, materially outperforming the investment returns – return targets of the funds it sits in. This should drive significant returns to our private fund clients, and our BAM shareholders will benefit from the realization of carried interest as these funds wind down in the coming years.

Before I wrap up, I would also like to touch on this investment from a sustainability standpoint. Today, Enwave's fleet of energy generation assets within the district energy space are one of the most efficient and cleanest in the world. A few highlights of this include being North America's largest recycler of building waste energy, operating the world's largest commercial deep lake cooling system and North America's largest heating and cooling thermal batteries as well as North America's largest ice battery, which is used for making and storing ice at night when electricity prices are at their lowest, then distributing the chilled water during the day to cool buildings. Together, the energy savings of all these technologies is an annual equivalent energy consumption of 15,000 residential homes. The GHG savings is equivalent to 42 million car miles and savings of 1,100 Olympic-sized pools of water.

So to wrap up, I will just summarize. This has been a very exciting, high-performing investment for us and a perfect example of Brookfield's investment strategy of identifying high-quality, scalable businesses that have high barriers to entry and benefit from predictable inflation-linked cash flows where we can also drive additional value creation. Our strategy of identifying early, acquiring and using our deep operating expertise across a number of adjacent asset classes to integrate sustainable district energy assets across North America allowed us to grow a small local utility into a highly desirable global leader in the district energy space. To achieve that, we essentially commercialized the utility by applying a leasing strategy and promoting the economic and environmental benefits of the sustainable energy it provides.

We are very proud of the management team's success in growing Enwave into a best-in-class operator and a global leader in building and growing sustainable district energy. We look forward to our clients and shareholders taking part in its continued success.

Thank you. I'll now pass back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi *BMO Capital Markets Equity Research - Analyst*

Two questions. First, on the reinsurance program, just wanted to confirm that using the American Equity Life reinsurance is a good template for sizing the price, if you will, in the opportunity over the coming years, both from a leverage and potential return perspective?

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

Were you going to ask the second question? Or do you want me to take that?

Sohrab Movahedi *BMO Capital Markets Equity Research - Analyst*

Sure. I can add – I can also add the second question. Bruce, unrelated would be in pursuit of trying to ensure that the value at the asset management franchise is fully kind of appreciated and realized, I wonder if you would ever consider distributing any of the BEP or BIP shares to BAM shareholders directly, increase the opportunity for management fees, IDRs and increase liquidity at BIP and BEP as well? And so just those questions, please.

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

So here's what I'd say. On the second question, which I think is – and if I don't get them exactly right, please follow up. But the question is, would we consider distributing out to the shareholders of BAM shares of Brookfield Infrastructure or Brookfield Renewable Partners. And look, here's what I'd say. From time to time, we consider many different alternatives in the company, which will create value for shareholders that we've considered in the past. We've not done it because some of our shareholders like to own what they own, and we have a tendency to give spin-offs to people, but we can't do too many of them all at once. But we'll continue to think about the opportunities we can do to create value, and that could be one of them in the future that fits into the plans. But we have no intention at this point in time.

As to the size of the reinsurance program, here's the comment I would say, is that given the industry for long-tailed insurance has experienced what they have over the past 10 years, being interest rates coming down, many entities are requiring capital to continue to write policies and don't trade at proper net asset value prices in the marketplace. Therefore, they require capital. And we think the confluence of us being interested in the business and the counterparties requiring capital – our capital can be a lot more efficient to them than others – than what they would do in the market issuing stock or doing something like that. So we think there's a number of opportunities to be able to continue to add on to the business like the transaction that we did recently.

Sohrab Movahedi *BMO Capital Markets Equity Research - Analyst*

And so just for abundance of clarity, Bruce, the \$500 million of equity backing up \$5 billion to \$10 billion of reinsurance liability, that is kind of a gearing ratio is what you would kind of contemplate when you're thinking about what you had talked about at the Investor Day where the insurance opportunity could be upwards of \$200 billion of AUM?

Nicholas Goodman *Brookfield Asset Management Inc. - CFO*

Sohrab, it's Nick. I would say that that's broadly correct. I mean the amount of capital that you have to hold in reserve is really dictated by where you invest the assets. But based on a reasonable investment portfolio mix, I would say that's a fair starting point.

Operator

Our next question comes from Cherilyn Radbourne from TD Securities.

Cherilyn Radbourne *TD Securities Equity Research - Analyst*

In terms of the inaugural impact fund, I was hoping that you could help us differentiate between the types of renewable investments that it would like to make – or would look to make versus the types of renewable investments that you would normally undertake in the flagship infrastructure funds.

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

Yes. So the transition fund will invest into assets which will move the economy towards net zero. So it could include renewables, but it could include other industrial businesses and infrastructure assets and other assets which fit that mode. And they have to be able to fit the definitions that are out there, they have to have additionality, meaning that we will develop and create more assets in the future. So it will be much more focused on deploying capital to achieve the transition to net zero.

And we think that universe is very, very large, which could include some assets that might otherwise fit into our renewable program. And as you know, in all of our entities – or our listed entities partner with our private funds. And therefore, in this regard, if it's appropriate, some of those might be partnered with Brookfield Renewable Partners.

Cherilyn Radbourne *TD Securities Equity Research - Analyst*

Okay. That's a helpful differentiation. And then just picking up on the reinsurance discussion and the advantages that you bring to a partner like American Equity, is the crux of it your ability to generate higher returns on the assets? Or are there any other relevant advantages in areas like capital or tax?

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

Look, I would put it down to we have significant access to capital that many organizations don't have access to just because we've spent the last 25 years working with institutional investors. And secondly, our skill set is investing into alternatives – and you've heard us say this many times before. Alternatives are really the only place for institutions to turn today to deploy capital to get a reasonable return. And because the skills we have and the investing apparatus we've set up can create assets and deploy money into alternatives much more efficiently than others, that's really the advantage that we bring to the table.

Operator

Our next question comes from Bill Katz from Citigroup.

William Raymond Katz *Citigroup Inc. Exchange Research - Research Analyst*

Okay. Just, Bruce, you mentioned that you expect to be in the market in the early part of next year for the real estate fund. Could you sort of step back a little bit and walk us through the timing that you foresee for the three segments themselves and how you think about successor funds versus the predecessor funds now in terms of sizing?

Nicholas Goodman *Brookfield Asset Management Inc. - CFO*

Bill, it's Nick. Yes, you're right. I mean obviously, when we launch the next funds, it's dictated by the pace of deployment of the existing flagship funds. And the real estate fund was obviously the first one of the three to be closed and therefore, is the most advanced in deployment right now. And we've said a few times, we expect it could be back out in the market early next year.

And I think based on where it is today, that's a reasonable assumption. And then you would expect private equity and infrastructure to follow after that. Still expecting them to be at some point next year as well based on deployment.

The size of our funds – there's really a few variables that go into the funds when we're sizing them. One would be what we think the deployment opportunity set looks like and our ability to invest that capital whilst achieving our desired returns. The second would be what we think investor appetite will be for those funds. And then we obviously have a third variable, which is how much the Brookfield commitment will be to each of those funds. But I think based on our current expectations, we believe, and we set this out at Investor Day, that there is definite room for growth in those funds and expect them to still be in line with what we would have laid out at Investor Day and have conviction that we can raise that capital and put it to work for value.

William Raymond Katz *Citigroup Inc. Exchange Research - Research Analyst*

Okay. And just a follow-up, Nick, maybe I'll start with you. Just in terms of the FRE margin, given the scaling of the Oaktree footprint and some of the assets they more recently raised, how to think about maybe the flow-through to your margin outlook as we look into 2021. Obviously, at the high end of your range in the quarter itself, maybe transaction activity there, but how to think about maybe the incremental margin from here.

Nicholas Goodman *Brookfield Asset Management Inc. - CFO*

Yes. Bill, I think our comments would be largely consistent with prior quarters. Obviously, these funds will get larger, and so that will see potentially an increase. But there's offset because the funds get larger, we have to obviously raise more capital, which means reaching out to more clients, servicing more clients, pursuing new channels of distribution. So there is obviously a cost buildup of that.

We are incubating and building new strategies on balance sheet. We have insurance, technology transition. Those start smaller, but we build the apparatus for investing and managing that capital upfront as well.

So I think that there is going to be growth, and there's obviously positive momentum right now, strong margins this quarter. But I still think of it being in the range we previously talked about as we build out the operations that support it.

Operator

Our next question comes from Robert Lee from KBW.

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

Great. Maybe sticking with BAM Reinsurance. I guess frankly, I'm trying to understand some of the reasoning behind doing the spin-out now. I mean I understand the other on BEP, BIP, creating the paired securities, C-corp to REITs attracted a broader investor base, which has clearly been evidenced. It's not an issue that I think BAM had and understand you're trying to stand up the reinsurance business and invest in it. Kind of feels why now, particularly since it's just going to be a reflection of BAM's earnings.

And I guess the second part of that would be, to the extent you raise future capital for reinsurance, is it all going to be through that vehicle? So therefore, its results will start to deviate from BAM's? Is that the way to think of it?

Bruce Flatt Brookfield Asset Management Inc. - CEO

So I'll take the first one, and then Nick can add to it if I don't hit the answers. I guess it's important for us to set up this entity from the beginning in a proper way, in a proper place so that it can compete with all the global insurance, reinsurance businesses that are in existence. And to be able to do that, the most efficient way for us to do it is to set up the entity in the way we're setting it up.

We considered whether we should actually have it as a spin-off to shareholders, but it's not mature enough yet, and it needs the resources of all of Brookfield to be able to grow for the next two, three, four, five years, possibly forever. And only at some point in the future, when it's more mature, would we consider splitting it apart and actually making it a separate security like the infrastructure company or renewable company or property company. For the time being, it will have the benefits, but it will be set up in a way such that, that could happen. And that's quite important to us for the future. So that's the answer to the first part of your question.

And the second, maybe I'll turn it over to Nick to just answer that part.

Nicholas Goodman Brookfield Asset Management Inc. - CFO

Yes. Rob, I think in its current form, given that it's a paired security transferable back to BAM and the excess value accrues to BAM, any performance or strong performance in there accrues to all shareholders. So the business and the unit will perform well, but the BAM shareholders will benefit from that strong performance in this current performance structure.

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

Okay. And maybe if I can, just one quick follow-up. Going back to the fundraising – and I apologize if you may have responded to this already in Bill's question. But how should we think of your future commitments to the next round of flagship funds? I mean if we want to make an assumption that maybe they grow in size that – given strong third-party demand, how are you thinking about that?

Nicholas Goodman Brookfield Asset Management Inc. - CFO

Yes. So I touched on it briefly in the earlier question. It's one of the variables that goes into our decision-making when we launch a fund. And I think we're going to be a significant investor in the funds. As they get larger, the absolute investment will be sizable, but the percentage may come down.

And I think that we don't have a predetermined level in our minds, but we know that it's going to be part of the decision-making process when we size the fund again based on the investment opportunity set, client demand and Brookfield commitment will be just one of the variables that go into it. But I think you can assume we'll continue to be significant investor, but maybe expect the percentage to come down whilst the nominal dollars remain material.

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

Great. And if I'm allowed, one last question. It seems kind of hinted in the release that maybe the outlook for carry generation is improving. And can you maybe dig into that a little bit, kind of what you're seeing and maybe how we should be thinking of that development as we look ahead to 2021 and which businesses maybe you would expect to be the leaders in that?

Nicholas Goodman Brookfield Asset Management Inc. - CFO

Yes. I think it's just premised. And again, consistent with prior remarks, in this low interest rate environment that we are in and owning a number of businesses that have performed very strongly through the shutdown and really, it's only enhanced their perspective of their resiliency and their performance as we come out of this, there's obviously a lot of capital in this environment looking for inflation-protected cash flows like that.

So we have many businesses that we would have been thinking of taking to market earlier in the year that we paused and now we're returning to those. We have one transaction we previously announced, the real estate business, storage business. And we would have others that we obviously don't want to state what they are because there are processes. But I think you can start to see more monetizations. And obviously, the public markets are also very supportive right now. So we just believe that there will be renewed momentum around dispositions end of this year and coming into next year. And that will obviously result in some increased realized carry compared to last six months.

Operator

Our next question comes from Mark Rothschild from Canaccord.

Mark Rothschild *Canaccord Genuity Corp., Research Division - MD & Real Estate Analyst*

You got a little bit active in the buyback subsequent to the quarter. And I'm just curious, how much of that was taking advantage of a normal drop in the share price versus the thought that you have excess capital that maybe you want to put into buying back shares more aggressively over the next year?

Nicholas Goodman *Brookfield Asset Management Inc. - CFO*

It's a combination, I would say, mainly driven by, as you know, we have excess capital we look to redeploy into the business. But when we saw the disconnect really widen – as Bruce said, our value, in our view, had increased intrinsic value and share price dropped and that disconnect go wider, that drove the decision in the last sort of period, in the last month specifically.

And as we look forward, if something like that persists and that deep value pertains, then we'll invest more capital. But we do also have a number of other investment opportunities in the business where we can put capital to work. So I would say it's just an ongoing decision, and we haven't got any predetermined views for what will happen in the next six to 12 months.

Mark Rothschild *Canaccord Genuity Corp., Research Division - MD & Real Estate Analyst*

Okay. Great. And maybe just one more question. And this was kind of asked earlier. I just want to clarify and make sure I understand. For the impact funds, there clearly could be a lot of overlap with your existing core subsidiaries. So let's say in the property, could BPY or your real estate funds be a co-investor in an impact fund – in an impact investment? Or do you expect that this would be totally separate and perhaps the impact funds end up being another public subsidiary at some point?

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

Yes. So at this point in time – to start from the end and go back, at this point in time, we have no intention of having a listed entity for transition. But as with all of our private funds, one of our listed entities invest the Brookfield capital into that investment. So some investments for the transition fund may be appropriate for infrastructure or renewables or property or our BBU entity. It may be and they would invest our portion of the capital. And if not, then Brookfield Asset Management would take up that portion.

So if we were 25% of the money, the 25% may come from any one of those. And that's the way all of our funds are today where one of the entities does. It just so happens that in property, there's only one listed entity that makes the investments beside our private investors.

Operator

Our next question comes from Mario Saric from Scotiabank.

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

Just going back to BAM Reinsurance Partners, I think, Bruce, you mentioned there's a possibility it could be a separate entity down the road. And you highlighted kind of two to five years in terms of timing, maybe forever. Should we look at historical precedent with respect to your other listed subs in terms of size as a good proxy for when you think that may occur?

So if I go back and I take a look at BIP, the value was roughly about \$1 billion. BBU was about \$2 billion. BOX was about \$2 billion and so on. So how should we think about kind of the factors that drive that decision and timing in terms of us creating a separate entity?

Bruce Flatt Brookfield Asset Management Inc. - CEO

I don't know. The answer is we're never too sure until we get into it. I think this entity could be far greater and needs more access to our resources than the other entities because of all the investments it needs to make. So for the time being, it needs to be paired to Brookfield.

The real determination will be if very, very significant amounts of capital are required and we don't have enough capital on the balance sheet of Brookfield, then we'll need to look for one of two places to invest new capital into that. And it'll either be private clients of ours to invest in the entity and share that entity with us or we look to spin it off from Brookfield. And that may be at some point in the future.

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

Okay. And then my second question just pertains to the transition fund. So I think in the letter, it stated an intention for the first private fund, the size will be comparable to other private funds. So I just wanted to clarify if you were referring to your existing flagship funds, the size of your inaugural flagship funds in each of the verticals or other private funds.

Bruce Flatt Brookfield Asset Management Inc. - CEO

We were referring to our flagship funds, and we hope to that. But I don't think I can get into specific numbers just because of the regulatory requirements.

Operator

Our next question comes from Andrew Kuske from Credit Suisse.

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

Clearly, your structure is different than most of the other alts that are in the market, and it's given you a lot of flexibility from a funding standpoint but also from an investing of BAM capital. And you really reallocated capital through the corporate family with some of the buybacks and offering activity in the quarter. How do you think about that embedded optionality that you have from a BAM standpoint given the array of vehicles that you've got and then combining that with the private capital on your flagship funds?

Bruce Flatt Brookfield Asset Management Inc. - CEO

Yes. Look, I might start off, and then Nick can add to it but – and just say that our job as Brookfield Asset Management is to do two things. One, we're running a large-scale asset management business. And second, we're in the business of allocating our capital effectively so that our shareholders can maximize the value out of what they own. And that really involves two things, using the capital we have to support our investment management business and invest beside our clients and make sure that we can access opportunities for them that they wouldn't otherwise get because of the capital that we have.

But secondly, it's making investment decisions when securities are mispriced and if we understand them possibly better than others or have a view different than others, utilize that mispricing to enhance the value in the long term of the business. And I do think that's one of the reasons why our returns over 20, 30 years have been better than some comparable entities is because of the capital allocation and rotation from investment to investment.

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

And obviously, today, you announced the spin of the reinsurance business. You do have a sizable chunk of the BAM balance sheet still sitting in residential. And you've had vehicles in the past in a few different jurisdictions in the Resi space. When do you anticipate – or when are the market conditions appropriate to really spin that off of your balance sheet?

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

Homebuilders today are the flavor of the last six months. They've been highly successful. They've all doubled, tripled, quadrupled in value. Of course, ours has done really well. You don't see that necessarily because it's private, and it's on our balance sheet and not listed.

I would say that our experience over a 25-year period or more of owning homebuilders or land developers and homebuilders is they don't exactly trade in the public market perfectly most of the time. They happen to be doing that today. And so for that reason, I'm not sure we have any intention of doing it. And it may be better for us if we want to have less capital, invest in the business over time just to reallocate capital because this is a depleting business if you don't reinvest into it. So from time to time, I think we'll just do it that way versus listing it.

Operator

And our next question comes from Ken Worthington from JPMorgan.

Kenneth Brooks *Worthington JPMorgan Chase & Co, Research Division - MD*

Most of the questions have been asked, but maybe just a follow-up on the flavor of the day, which is reinsurance. Maybe talk about the assets or contracts that are included in the new reinsurance entity when it's spun off to shareholders. I don't think you went through that. Maybe I missed it. Does that include the insurance contracts, the reinsurance assets? Does it include the 20% interest in AEL? And then do Brookfield Insurance shareholders get voting rights in the new entity? Or is it that the votes are sort of retained by Brookfield?

And then lastly, I think this follows up on another question earlier. Will the reinsurance entity need to raise equity to support the initial growth? Or is Brookfield going to capitalize it well enough to support sort of its growth over the next couple of years or so?

Nicholas Goodman Brookfield Asset Management Inc. - CFO

Yes. So Ken, there were a lot of parts to that question. If I don't get them all, then please prompt me. But I think we're still working through what will be there, but the intention is it will house all of the insurance assets that we have. So the initial stake in AEL. As Bruce said, we also have some other insurance entities that we've seeded on balance sheet. The way we see this working is, obviously, that it will have those investments. It will have reinsurance trades on its balance sheet.

As we touched on in an earlier question, the way that we're looking to differentiate and earn strong returns is by putting that capital to work in our investment strategies, predominantly credit. But that means when that capital is invested into our strategies, the resulting fee-bearing capital and fee-related earnings would flow through our asset management business. And they would be investing alongside other clients that we have in those strategies, paying the same fees and rates as those. But I would say that's a secondary focus.

The primary focus is that when we do these reinsurance transactions, we want to make sure that we are investing capital for value in this business so that we're comfortable with the net return that we can earn on any reinsurance transaction. And then obviously, a consequence of that will be that when we put the capital to work, there will be a resulting growth in fee-bearing capital and fee-related earnings over time. I don't know if I answered all parts of your question.

Kenneth Brooks Worthington JPMorgan Chase & Co, Research Division - MD

Most. The voting rights, do Brookfield reinsurance shareholders actually get a vote here in the new entity? Or is that just sort of delayed until the pairing is – the stock is unpaired?

And then equity issuance, is this the vehicle that's going to raise equity? Or is equity raised through BAM and sort of transferred to the insurance vehicle? How does the capital raising actually work here?

Bruce Flatt Brookfield Asset Management Inc. - CEO

So to start – I'll answer it in reverse order. Starting off, the capital will be seeded into the entity, and \$500 million will be spun out to shareholders. The balance of the equity will be provided by BAM. And to the extent it needs more money, BAM will put more money into the entity, and there'll be no further shares of that entity issued other than if we choose to.

But remember, even if we do issue shares out of that, they're really just a BAM share. So while we're buying shares back in Brookfield Asset Management, I suspect we're never going to issue a share in Brookfield reinsurance because they're a paired share. So it would be – you'd be doing the same. You'd be issuing in one place and buying back in another. So the equity will be provided by Brookfield as a first step.

Secondly, to answer your first question, on the voting rights, the structure will be the exact same as it is in Brookfield Asset Management. So all shareholders will get voting rights like they do today. They'll have the same rights they have in Brookfield Asset Management. They'll have the same rights they have in Brookfield reinsurance.

Operator

(Operator Instructions) And our next question comes from Bill Katz with Citigroup.

William Raymond Katz *Citigroup Inc. Exchange Research - Research Analyst*

Okay. Just going back to the transition fund for a moment. Bruce, in your letter, you mentioned that you could foresee this being a \$50 billion to \$100 billion opportunity over time. What are your expectations for the scaling of that? And how would the economics of a fund like this compare to, let's say, your flagship funds?

Bruce Flatt *Brookfield Asset Management Inc. - CEO*

I think it will be – the second question first, it will be similar to our flagship funds. And we think that this business can be very large as we create a new asset class for institutional investors. And the reason why we're coming out with it and the reason why Mark joined us is we think that there is a very large group of investors who want to put money into the transition of the economy, and there's not very many alternatives for them to do that.

And as a result of that, if we can create a fund offering for them with all the discipline and access to what we have within Brookfield, we'll have a number of people that will want to invest with us. And there's not many other alternatives at this point in time.

William Raymond Katz *Citigroup Inc. Exchange Research - Research Analyst*

Okay. And then just one last one. Just going back to reinsurance. Is there an opportunity here, as you scale the business, to maybe broaden out the fee-related earnings stream to an advisory opportunity beyond simply just picking up some incremental spread and then the corresponding FRE associated with that?

Nicholas Goodman *Brookfield Asset Management Inc. - CFO*

We will see over time, Bill. That's not where our heads are at right now. The focus right now is about investing the capital that we'll be raising and earning strong returns on that invested capital. And as I said, the direct consequence of that will be fee-bearing capital and fee-related earnings. We haven't turned our minds to advisory fees.

Operator

And I am showing no further questions from our phone lines. I would now like to turn the conference back over to Suzanne Fleming for any closing remarks.

Suzanne Fleming *Brookfield Asset Management Inc. - Managing Partner of Branding & Communications*

Thank you, operator, and thank you, everyone, for joining us today. With that, we will end the call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.
