

Brookfield

TRANSCRIPT: Q4 2020 CONFERENCE CALL / WEBCAST

February 11, 2020 at 11 am (ET)

Corporate Speakers:

- Suzanne Fleming, Managing Partner, Communications and Branding
- Bruce Flatt, CEO, Managing Partner
- Nicholas Goodman, CFO, Managing Partner
- Adrian Foley, President & COO, Brookfield Properties, Development Group

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brookfield Asset Management Fourth and Year End 2020 Results Conference Call.

Please be advised that today's conference is being recorded.

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, Managing Partner, Brookfield Asset Management Inc.

Thank you, operator, and good morning, everyone. Welcome to Brookfield's Fourth Quarter and Full Year 2020 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer; Nick Goodman, our Chief Financial Officer; and Adrian Foley, President and COO of our North American Development Group within Brookfield Properties.

Bruce will start off by giving a business update, followed by Nick who will discuss our financial and operating results. And finally, Adrian will give an update on our residential single-family business. After our formal comments, we'll turn the call over to the operator and take analysts' questions.

I'd like to remind you that in today's comments, including in responding to questions and in discussing new initiatives and 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 laws. These statements reflect predictions of future events and trends and do not relate to historic events. They are subject to known and unknown risks, and future events 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.

Thanks. And with that, I'll turn it over to Bruce.

Bruce Flatt, CEO, Brookfield Asset Management

Thank you, Suzanne, and good morning, everyone on the call. Despite the extraordinary circumstances of 2020, we ended the year with our best quarter on record. For the year, we earned a record level of FFO and cash available for distribution as well. All of this was achieved despite roughly 20% of our businesses being impacted during the economic shutdown.

I use this point to underscore for you one more time the strength of our capital structure and the long-term nature and resiliency of our asset management franchise and the businesses that we own. The environment in 2020 was unusual to say the least. Just a few points. We saw GDP drop in almost every country, unprecedented stimulus put in the economies, dramatic increases in unemployment rates and interest rates dropping to effectively zero in almost every major market.

As we now look into 2021, we are seeing positive momentum in global markets, low borrowing costs, the pharmaceutical companies have come through in amazing time and the vaccines are now being rolled out. We expect economies will normalize as the at-risk populations are vaccinated. We are starting to see this happen now, although unevenly. And as governments and people get comfortable enough to resume normal life, we expect to see a strong recovery in economic numbers starting now and into next year. We expect interest rates to remain low as there is no meaningful inflation on the horizon. This low interest rate environment should continue to provide a very positive backdrop for our asset management business and the real assets that we own.

It is worth noting that while our business has been very resilient over the last 12 months, it is built to perform at all points in the cycle - in general, our operations are more geared to economic recovery. As a result, we should be able to grow the value of our businesses coming out of this recession even more. One business that we own that has been very strong is our residential single-family business in North America. We don't often profile this business, but given what is going on in the residential markets, we asked Adrian Foley to join our call today. You will hear from him in a moment.

Looking back on 2020, we raised over \$40 billion of capital across a number of diverse strategies. Of note in the year, we saw strong growth in our perpetual private fund strategies, we had a successful first close for the flagship distressed fund and we saw sizable inflows to other credit. As we look to 2021 and beyond, all indications are that this strong momentum is continuing.

We are in the early stages of a fundraising super cycle and remain confident in our target laid out at our Investor Day of \$100 billion for this round of flagship fundraising. The size of our flagship fund offerings differentiates us in the scale of things that we do, and this scale in itself creates opportunities. So this is additive to the franchise in many ways. Specifically, we are now in the market fundraising for our fourth real estate flagship fund. And with our private equity and infrastructure funds almost 60% invested or committed in aggregate, we expect them to launch fundraising for their next vintages in the next 12 months.

We also recently laid out for you four new growth areas, each which we believe will be meaningful to our long-term growth strategy. These are reinsurance, energy transition, secondaries and technology investing. Since then, we have been working on two reinsurance transactions and are closing in on \$15 billion long-dated annuities in that business, have made a number of investments and are raising capital for real estate secondaries, established a team focused on technology and recently launched fundraising for our Global Transition Fund, which we hope to be over \$7.5 billion.

We have committed \$2 billion ourselves to this strategy. This fund is focused on high-quality, sustainable investments that will accelerate the transition of the world to a net-zero carbon economy. As an

organization more broadly, we are committed to the movement to a net-zero carbon economy, and our Global Transition Fund will be supportive of this goal. All around the world, we are seeing countries making commitments to this effort and, in some cases, ones who have already done that are accelerating their targets.

As we come out of this health and economic crisis, we expect it to be a good time for companies to reset their strategies and focus on sustainable growth. We are in an envious position of being carbon zero across our entire \$600 billion asset footprint. As a result, we are well positioned to assist others with this transition. To put it very simply, all companies that want to be around for the long term will need a net-zero strategy. This is no longer a choice.

Turning to transaction activity, it was obviously slow in the first half of 2020, but we saw a pickup in the second half of the year and a very busy start to 2021. We are very active today with close to \$80 billion of capital for deployment. At the same time, selling activity or sales activity out of our funds stopped in 2020, but started again in the summer and has accelerated into 2021. Nick will discuss what is going on in more depth in his remarks in a moment.

So before I turn it over to him, thank you for your ongoing support. We look forward to reporting on the progress of 2021 over the year.

Nicholas Goodman, CFO, Managing Partner

Thank you, Bruce, and good morning, everyone. So we ended the year with very strong financial results and have an equally positive outlook for the year ahead. Our asset management business continues to benefit from long-dated, predictable revenue streams. And as we execute on our next round of flagship fundraising and scale our other strategies, we expect to see another step growth in fee revenue.

In the current environment, we expect to be harvesting capital by selling mature assets. In the last few months, we have advanced and closed a number of asset sales, and we expect that momentum to continue in the coming months. We also believe our operations are well positioned to deliver growth as we emerge from the current economic recession.

Before I get into the financial results for the quarter, I want to highlight some of our recent and upcoming capital recycling initiatives. Across our private funds and directly on our balance sheet, we have many investments where we have executed our business plans. We created significant value, and we're now thinking about monetizing to realize profits, return capital to our investors or reinvest the proceeds into the business.

As transaction activity ramped up in the third quarter of last year, we restarted several sales processes that had been postponed from earlier in the year. We had conviction that our assets, having performed well throughout the year, would be very attractive to a broad pool of buyers. Add to that the fact we're in a near-zero interest rate environment globally and every major economy has experienced significant stimulus, it felt like a very constructive environment to be monetizing investments. Since that point, we have sold more than \$15 billion of assets across our private funds, listed affiliate balance sheets and directly held investments, crystallizing total gains of approximately \$6 billion or \$1.5 billion at our share.

Highlights from the fourth quarter include the sale of a real estate self-storage business, sale of a prime office building in Central London, we exited a fund investment in a port terminal in Australia, sold down an interest in our graphite electrode business, IPO-ed a leading manufacturer of solar tracking solutions and completed the partial sale of a directly held real estate portfolio. All these sales were executed at values higher than their IFRS carrying values, generated disposition gains of \$810 million and led to the

recognition of \$434 million of carried interest in the fourth quarter, taking the total for 2020 to \$684 million.

Since the start of the year, the pace of activity has accelerated. We recently announced the sale of a district heating and cooling business called Enwave, crystallizing a profit of nearly \$2 billion, which represents a multiple of capital of 6x and an IRR of over 30%. We also recently sold a life sciences portfolio at a 2.7x multiple of invested capital or 55% IRR; successfully listed our Indian REIT, which was 8x oversubscribed and at these values represents an IRR of over 30% and multiple of capital of roughly 3x. We IPO-ed a technology provider to the solar and power storage industry; took public one of our venture investments called Latch, an iPhone-enabled locking system for apartments; and also participated in a successful SPAC merger with a multi-specialty telehealth platform.

These sales have been executed at a premium to carrying values and have either crystallized carried interest or taken the fund within which they were held significantly closer to the point of carry realization. Given our outlook on the macro environment and our current pipeline of known realizations, we anticipate a very active first quarter and believe that 2021 will be a strong year for realized carried interest with up to \$1 billion currently anticipated.

We also expect to be able to opportunistically bolster BAM's liquidity by selling directly held investments into these strong markets. We recently completed the merger of Norbord with West Fraser and now own 20% of the combined company. Our investment has doubled in the last 6 months, and we currently own roughly \$1.5 billion worth of shares, which are benefiting enormously from one of the hottest wood product markets ever.

Turning to results – total funds from operations, or FFO, in the fourth quarter was \$2.1 billion or \$1.34 per share, which was a 74% increase over the prior year quarter. Our operating FFO, which excludes the impact of disposition gains and realized carried interest, was a record \$1 billion in the quarter or \$0.66 a share and reflected the growth of our asset management franchise and the resiliency of our underlying businesses. All of this resulted in income to shareholders in the quarter of \$643 million or \$0.40 on a per-share basis.

Our asset management business also had a successful year. Fee-bearing capital increased by \$22 billion to \$312 billion at year end, which, when combined with the full year's contribution from our credit business, led to strong growth in fee-related earnings. The fee-related earnings increased to \$411 million for the three-month period and totaled \$1.4 billion over the year, an increase of 19% from 2019.

We also have a further \$33 billion of capital that will become fee-bearing when invested. And when it does, it will generate approximately \$330 million of incremental fee revenues annually. In the quarter, we generated \$1.2 billion of gross carried interest, bringing our unrealized carried interest balance to \$4.7 billion, and this is reflective of value-enhancement strategies we have implemented within our various operating businesses and our credit business.

Turning to invested capital, including disposition gains, FFO for the quarter was \$644 million, an increase of 45% 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 contributions to FFO from newly acquired businesses and same-store growth across a number of our segments.

Our strong results in the quarter led to \$957 million of cash available for distribution, or what we call CAFDR, during the quarter, a 45% increase from the fourth quarter of 2019 when excluding the impact of carried interest. On a full year basis, we generated a record \$3 billion of CAFDR, which is up 19% from the prior year and highlights our ability to continually generate strong cash returns across the whole market

cycle. This cash flow continues to bolster our liquidity, which is used to redeploy to higher-growth opportunities or over time return to shareholders. Over the past year, we've returned over \$1.1 billion of capital to our shareholders through dividends and share repurchases.

Our liquidity remains very strong. In addition to \$61 billion of uncalled fund commitments, we have approximately \$16 billion of core liquidity across the group, including over \$7 billion directly at BAM for a total of \$77 billion of deployable capital. Our balance sheet continues to remain conservatively capitalized with 94% of our debt having no recourse to the corporation.

Today, our corporate debt-to-market-capitalization ratio is 12%, and average remaining term on our corporate debt is 14 years. And we have no individual piece of debt maturing before 2023. Furthermore, our investments continue to remain a source of significant additional flexibility with mature investments that can quickly be converted to cash, often at a significant premium to book value. In the last quarter alone, we were able to unlock approximately \$677 million of added liquidity by opportunistically selling investments. And just this morning, we announced that we generated a further \$750 million of liquidity from a secondary offering of BEPC shares.

Finally, I am pleased to confirm that our Board of Directors has declared a \$0.13 per share dividend payable at the end of March. This represents an increase of 8% over the current quarterly dividend rate.

With that, I will turn the call over to Adrian Foley to provide an update on our North American residential business.

Adrian Foley, President & COO, Brookfield Properties, Development Group

Thank you, Nick, and good morning. Today, I'm going to talk to you about Brookfield Residential, our wholly owned North American homebuilder and developer of residential lots.

Just so we are clear on nomenclature, we currently have three businesses. First, we buy new land, entitle it and split it into lots to sell. We then sell those lots to someone who builds a house. Second, we sometimes buy those lots ourselves and we build houses. Third, in our credit business, we use the specialized knowledge we have to lend on some lots when others want to control those lots, but not put up the capital.

Brookfield first invested in this business in 1987. And since then, it has delivered a gross IRR on invested capital of 22%. On a compounded basis for 35 years, that's an amazing multiple of capital. Today, our business generates over \$600 million in operating cash flows annually. The value of the land we currently own is about \$7.5 billion at today's prices on an undiscounted basis. And the majority of these land positions will be converted to cash over the next 10 years. The current equity value is approximately \$3 billion, and our outlook for the business is very positive. We believe we are well placed to continue delivering very strong returns on equity.

We operate today in approximately 30 master-planned communities and 100 neighborhoods in 12 cities across North America. Annually, we build on average 4,000 homes and sell an additional 4,000 lots to other builders. As one of the top five residential landowners in North America, we control approximately 85,000 lots, which equates to just over 10 years' worth of supply in the markets we operate.

We take a disciplined approach and have proactively managed our land book to deliver consistent returns for Brookfield. In addition to this, we support our credit group who lends money to our homebuilder friends, producing good returns, but to us at a lower risk as we truly understand the value of what we are lending on.

Our long-term strong returns can be attributed to a few things: 1) Leveraging greater Brookfield knowledge, we use our strategic land investment lens to control assets in the right place at the right time; 2) Creating value through thoughtful planning and product segmentation; and 3) Having a homebuilding business to monetize our land value when third-party builders pause or step back.

The business of entitlement, land development and master planning is time-consuming and requires very specialized skills. There are a few who do it and still a smaller number who do it and also have the capital to do it well. It requires a detailed technical knowledge of the entitlement process, a product knowledge that maximizes land values and capital management to invest and absorb land users efficiently. When properly executed, it generates excellent risk-adjusted returns and significant cash flows over long periods of time.

Moving to the current situation, which I'm sure many of you are interested in for many reasons. Over the past 12 months, we have seen the new home market respond positively to structural pent-up demand. The advent of sub-3% mortgage rates, greatly increasing consumers' buying power, coupled with a significant drop in the supply in the used home market, has produced a strong demand for new homes, maybe the strongest I've seen in my 30+ years doing this, at least on par with 2005, 2006, the difference now are the fundamentals are much, much better.

The U.S. new home industry saw over 800,000 new single-family sales in 2020, an increase of approximately 20% from 2019. And the active inventory in the market, that's the used homes available for purchase, down by 35% at the end of 2020. Our own home sales grew 6x from the low point in April through July, August and September, and this increased demand has continued. We finished the year with over 3,500 sales and a 15% increase in year-over-year performance, but over 30% increase when you offset for 8 weeks of almost zero sales when the world totally shut down. We entered 2021 with over 1,900 homes in backlog, that's 50% higher than our 2020 number.

In addition to strong sales, we've seen home pricing grow by approximately 10% in all of our U.S. markets, and we forecast 2021 and 2022 to have a similar growth trajectory. Assuming all pro forma costs remain the same, about 70% of the home price appreciation drops to the land, and therefore, our margins will improve appreciably. The result of this generates enormous upward revaluations of land value.

When we look some years ahead at forecasted demand, our view is that the land and housing business is in a strong position. The known demographic shifts are driving heavy household formation across many markets, and we believe there is a strong need for housing that is located and priced correctly, both for sale and for rent. The past 10 years have seen an average of just over 1 million multifamily and single-family housing starts annually. That's well below those demographic drivers.

We believe we will see continued demand in the next decade with the lot supply industry largely unable to keep pace with the formation of households. The top 10 public builders have grown their market share to approximately 40% of total housing starts, and they desire to control lots through land-like structures off balance sheet. This is where it gets exciting as we both sell lots for these homebuilders and sometimes finance their lots. There are a few others that compete with us.

We anticipate increasing our land manufacturing to become a supplier of a greater number of lots for public builders while also looking to grow our own housing business under a land growth umbrella. This demonstrates the power of the Brookfield business model, finding alternative avenues to invest capital while always being focused on earning excellent returns.

The pandemic has accelerated a series of innovations in the way homebuilders find housing, access it for viewing purposes, conduct their own evaluation of pricing and ultimately purchase homes. We have spent time operationally, in the past 12 months, with a series of innovations repositioning our digital sales

operation and the manner in which we speak to our customers. Our sales environments are open virtually almost every hour of the day. And you can physically access our homes at your leisure from 7:00 a.m. to 9:00 p.m., 7 days a week, often without meeting another person. We provide you with transparency in our pricing and offer our services virtually or in person to bring you closer to the home-buying purchase.

You will shortly be able to view, design and purchase your home online with a purchase-now option. And if you have a home to sell, we will provide you with an avenue to monetize that value, all while sitting on your sofa at home, a remarkable step forward in reducing unnecessary friction in the home-buying and homeownership process. We believe the advent of new technologies like this will produce lower costs of sale moving forward. And these advances in operating efficiency will drive increased lot value as the reduction in costs will also flow to the land lot pricing.

In closing, the industry has enjoyed considerable tailwinds in the last 12 months, and we foresee this continuing during 2021. We remain excited about the long-term prospects of our growth in both our controlled land position and our housing operations.

Thank you. And I'd like to hand the call back to the operator.

QUESTIONS AND ANSWERS

Operator

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

Sohrab Movahedi, BMO Capital Markets

I just had three, hopefully, quick questions or clarifications. On the transition fund, I think you mentioned about \$7.5 billion, is that something that would have been contemplated as part of the bigger \$100 billion number that was talked about? Or would that be additive to it?

The second question is around what Adrian was just talking about. I wanted to clarify, Adrian, did you say the portfolio has about \$3 billion in equity, but generates about \$600 million in operating cash flows annually?

And then the third question, I guess the sense I got is that it's a very good market for dispositions and realizations. And I wanted to see, Nick or Bruce, if you could handicap how that toggles with you being able to deploy that \$33 billion of capital, which can become fee-bearing when committed. So as we look on to 2021, is it going to be more a year of realizations and dispositions? Or is it going to be more of acquisitions and capital deployment? Or how should we think about that?

Nicholas Goodman, CFO, Managing Partner

Okay. Thanks, Sohrab. So maybe I can go with the first and the third. And then the question for Adrian, clarification, he can jump in at the end. So on the transition fund, when we laid out the \$100 billion, I assume the \$100 billion, you're referring to the next round of flagship fundraising. Yes, listen, when I think when we laid out that target, we would have envisaged that renewable investing would become a larger component and either it would be a part of the next flagship infrastructure fund or we could go about raising a new strategy.

So I would just think about this. Before this, we would have had four flagship funds being infrastructure, private equity, real estate and our distressed credit fund. Now I think almost five-flagship funds, and this is just an evolution and complementary to the strategy. So I'd largely think of it as being helpful towards reaching that target of \$100 billion in the next round of flagships, but then it will probably give us more scale for growth in the future. If that's helpful.

And then on your third question, on the interplay of dispositions and putting capital to work, obviously, we're in market right now. As we touched on, the public markets are obviously very strong right now, and the private markets are very strong given the abundance of capital and low rates and search for yield and growth. So I think given the quality of our assets, it's obviously very logical for us to be looking to monetize the value we've created. And we do have a number of funds earlier, vintage funds or funds with assets that have crystallized or delivered a lot of value, it makes sense to look to crystallize in the short term.

That doesn't mean that we are not going to be able to put capital to work. We will look for ways to find transactions that will probably be away from the mainstream where there is maybe a scarcity of capital, and we can still put money to work for value. Although I would say that at this period of time, we're probably being more patient. The pace might be a little bit slower given what's going on in the market, but I think we feel good, and the pipeline is strong enough that we have conviction we'll be able to put the money to work, and we'll just do it in a disciplined manner.

Adrian Foley, President & COO, Brookfield Properties, Development Group

And as for the question on cash flows and equity invested, yes, \$3 billion. And that's an average of forecasted five-year cash flows on land and housing.

Operator

Our next question comes from Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne, TD Securities

My first question, I think, sort of picks up on that last discussion there around capital deployment. It sounds like maybe there's been some change in your thinking just regarding the timing of investment opportunities that will arise as a result of the pandemic. Maybe you could just sort of revisit your thinking on sort of the scale of the investment opportunities that you're expecting.

Bruce Flatt, CEO, Brookfield Asset Management

So look, I'll make a couple of comments, and then Nick may make some more specific ones. But I'll just say that generally, the market changes, and we have to change with it. And when we started 2020, it was a good market, and we were investing broadly across the world. The markets changed in March, and we started putting a lot of capital into the public markets. And come May, June, that ended.

And so the first point I'd make is we have to be flexible with our business strategies and where we invest because the world changes, and we have to change with it. So we're always attuned to that. The strength of our organization, I think, is that we have broad global mandates, and therefore, we can pick our spots.

And the second point I'd make and just as a broad comment is that the markets are very strong in many things. And therefore, we're selling or monetizing in this environment because they may go higher, but it's just a good time to monetize a number of things.

Irrespective of that, there still are many countries, many places, many businesses and many things that aren't trading -- are not trading properly, and therefore, we can put capital to work. So we do not worry that we have a lack of places to put money to work. On balance, though, I would say, this is not a period where in March, you could put enormous amounts of money to work into the public markets at distressed valuations.

Cherilyn Radbourne, TD Securities

Great. That's helpful. And then thank you for the update on the residential business. I apologize if I missed this, but can you comment on how that business is carried within your invested capital under IFRS and how that carrying value would compare to the intrinsic value of the land holdings, and also just the timing of when the strong market dynamics that were referenced should start to flow into FFO?

Nicholas Goodman, CFO, Managing Partner

Yes. Cherilyn, it's Nick. So I think our land and housing business on the balance sheets and our directly held unlisted, roughly about \$3 billion combined. There are some projects within that, that are more like investment properties, so fair value, but most of it is just inventory held at depreciated cost. So that value uplift comes through as we look to sell those parcels over time. So there could be an uplift on monetization over time from there.

On the realization into our financial statements of the strong operating performance and backlog that we have, you'll start to see that come through in the early part of this year, the first half of this year as we deliver on those lots and then crystallize the profit and the earnings into the P&L. We take a more conservative approach as we deliver the houses or the lots, then you'll start to see that income flow through. So you should see a strong pickup in the contribution in 2021.

Operator

Our next question comes from Ken Worthington with JPMorgan.

Ken Worthington, JP Morgan

Assuming the BPY deal closes as expected, what do you see as the right balance of selling BPY real estate assets outright versus the sale of these investments to new and existing Brookfield funds?

And then there seems to be a trade-up between how quickly Brookfield could sell BPY assets into new Brookfield funds and the price that Brookfield might get by holding on to these properties for a more lengthy period of time, so this concept of time versus price. Do you think there is a right balance when maximizing Brookfield shareholder values between time and price? Or is it obviously sort of one versus the other?

Nicholas Goodman, CFO, Managing Partner

Listen, it's a good question, Ken. I think that outright selling versus going into funds, we'll have to see how it evolves. We have a view that we have a portfolio of very, very high-quality assets that should be attractive to clients. And over time, we should be able to create products around these assets that will be attractive. But as you say, that will be balanced with some assets that it makes sense just to sell outright. The exact breakdown of that, it's hard to say. It will be case by case.

But I think to the second part of your question, it will be disciplined, and we will look to do it for value. There are certain parts of the portfolio that even in today's climate, they still attract strong valuations. We sold an office building in Central London in the fourth quarter at a very strong valuation. And there are other markets that are active, and then there are markets that right now are not as active and where you could sell assets would not be attractive.

So I think it will be a balance. And I think over time, we hope, as we've communicated, to reduce our exposure to real estate over time, and it will be a combination of outright sales and creating new products. But I think it will just be disciplined. And price versus time is a good question, and I think the overriding principle is to be disciplined and crystallize what we think is a fair value for the assets.

Ken Worthington, JP Morgan

Okay. And then we just had elections here in the U.S., and infrastructure is a priority for the Democrats here in the States. Can you talk if, and if so, how a meaningful increase in U.S. infrastructure investment could offer Brookfield both infrastructure investment and infrastructure realization opportunities? Or maybe it's neither.

Bruce Flatt, CEO, Brookfield Asset Management

Yes. So look, I would say, maybe as a further backdrop, I'll even make it more broad than that and then specifically comment on the U.S. But governments around the world have spent and invested enormous amounts of money to deal with the COVID situation, more than they ever expected to spend. There's only two ways out: tax or sell assets. And when I say sell assets, what that means is sell infrastructure, or fund future infrastructure through doing it in a private method. And our belief is that globally, governments will need to do both. They will need to tax, and they will need to sell infrastructure.

And that sets a very constructive backdrop for both things you said, which is there will be other institutions that will want to buy fully completed infrastructure with long-tailed cash flows and that we can, therefore, have a good market to sell into. And there will be assets, which are less perfect or larger in size or more diverse in nature that we can participate in and turn them into the first category. And so I think there is nothing but good news on the supply for infrastructure coming over the next 10 years, and that specifically is in the United States, but also in many other countries in the world.

Operator

Our next question comes from Geoff Kwan with RBC Capital Markets.

Geoff Kwan, RBC Capital Markets

Bruce, you actually kind of answered a little bit of the question that I was going to ask, and I was going back to just what governments kind of spending to try and deal with the pandemic and then how you kind of fix that. My question was, I guess, a little bit more is, have you done much work in terms of trying to figure out targeting preferred assets that you might want to try to invest from various governments globally? Have you had any discussions? Are governments kind of receptive right now? Are they still kind of in just trying to deal with the pandemic mode and kind of thinking about how to finance that a bit further down the road?

Bruce Flatt, CEO, Brookfield Asset Management

The answer is, I'd say, it's still early in the game. And these things don't happen overnight. There isn't going to be a switch, one day happens and everyone is going to sell assets. But every month, increasingly, for a long time, more infrastructure has been going into private hands. And no one really sees it or knows about it, but every day, that is happening. So I think just increasingly, more cities, more states, more countries are going to be facilitating more private funding coming into infrastructure, and the follow-on continues.

So I think it's happening every day, and you just don't really see it. And actually, I think our comment would be, the less drama that is with respect to it, the better it is. Because when there are big plans, often, nothing happens. And therefore, just the slow and steady monetization of infrastructure is the best way the countries can get it done.

Operator

Our next question comes from Bill Katz with Citigroup.

Bill Katz, Citigroup

Ok thank you very much for the perspectives and taking my question today. Just want to come back, maybe a little more tactical, in terms of the FRE margin, it looked like it was a very strong number for the fourth quarter. As I look through the disclosure, nothing jumps off the page as unusual of size. So Nick, perhaps you could sort of think through, just given the scaling of the flagship funds versus reinvestment versus maybe anything that's sort of running below trickles of COVID, how to think through the FRE margin into the new year?

Nicholas Goodman, CFO, Managing Partner

Yes. Sure, Bill. I don't think the messaging has really changed. I think we saw continued strong margins across the business. I think on a blended basis, it's strong. We broke it out for you by Brookfield and Oaktree. And the Oaktree margin was strong this quarter as they switched on more fee revenue during the year. But listen, the perspective is the same and that we are broadening our product offering. We are launching new strategies, which will require investment professionals, and the ability to service the clients and service them to the highest standard. Obviously, there will be leverage as we scale up. But I don't think anything has significantly changed to what we would have guided to the past. Although based on the growth we have in front of us, maybe we outperformed that slightly, but nothing materially has changed as we look forward.

Bill Katz, Citigroup

Okay. A two-part follow up, and I apologize, a bit unrelated. This seems to be a little bit of back and forth with investors we speak to in terms of the economic flow-through of BPY, just the add-on of what you're purchasing. I wonder if you can maybe just sort of summarize sort of how you sort of see the interplay between the invested capital versus the FRE, give and take. And then just sort of stepping back, and I'm so intrigued by your commentary on the residential mortgage side, maybe just an update strategically of how to further tap into the U.S. retail market, similar to some of your peers.

Nicholas Goodman, CFO, Managing Partner

Yes, sure. The economic flow-through on BPY, I think we've discussed, and we will have to update this as we work through the process. Obviously, there is a fee paid out of the business today. When we announced, we announced that we would have partners in the transaction with us. As we work this through with our partners, we will firm it up. But just now we expect that, that BPY entity continues to pay fees like it does today. And as that evolves, we'll confirm, but that's our expectation. And as for the return on invested capital, we expect BPY to continue to pay a cash distribution to Brookfield, consistent with what it does today. So that's the basic working assumption for now. And obviously, the business is performing well. Cash flow is strong. And I have no reason to change that outlook as we look forward.

The second part -- can you remind me the second part of the question?

Bill Katz, Citigroup

Yes, sorry for such a nested set of questions. Just sort of curious sort of translating some of this great performance, great products into potentially tapping a little bit deeper into the U.S. retail market.

Nicholas Goodman, CFO, Managing Partner

Yes. Yes, I think what we're doing on that is probably consistent with our peers. I think with the partnership that we have with Oaktree, we now have a really diverse range of products that are appealing to that broader market, and we've been leveraging what we have on the Brookfield side and our distribution capabilities to really try and grow that. I think about 7% to 8% of our fee-bearing capital today comes from that high net worth retail channel, and we'll be looking to grow that over time. And we've been developing and thinking about new products that could cater to that market. So I think it will be an important component of future fundraising.

Operator

Our next question comes from Andrew Kuske with Crédit Suisse.

Andrew Kuske, Crédit Suisse

The question really relates to the velocity of capital flowing through your business, and this is the private asset management business. And it's really on the raise, deploy and monetization cycles. And if you could give us maybe a quick snapshot on, organizationally, just the evolution you've seen from where you were 10 years ago and where you think you'll be five years from now. What -- where do you need to work? Is it on the distribution side? Is it on the investment professional side? Just give us a bit of color on that, that would be helpful.

Bruce Flatt, CEO, Brookfield Asset Management

Yes. And look, Andrew, I'd say we need help everywhere to make it specific. No one's ever perfect. But the good news is we've grown the business methodically over 25 years. And I guess I would just say, while we need to pay attention to all we're doing, I think we keep growing methodically each one of the businesses and adding tangential businesses onto it at a pace where we can handle it and both from a capital perspective and also from a management perspective.

So I -- look, if I may, two specific comments. We have a very honed and refined investment process. We've -- and that's been many, many, many years. We've been refining that. On the asset management distribution side, we're 20 years young, and we can still grow and become more effective at that. So I'd say if we had one spot where we can probably do a lot better, even though I'd say we're pretty good, is on that side.

Andrew Kuske, Crédit Suisse

And if I may ask a follow-up, and it's different but also a little bit related. Obviously, your homebuilding business, which you profiled today, has evolved over the years. And what's the next iteration of that homebuilding business? Because in the past, you've had other public entities, BHS, BRP, BZA, I might be missing one, but I think those are the three majors. How do you think about that business? Is it off the balance sheet at some point, either in a public company or a private company and/or co-investors? What are the options for the business?

Bruce Flatt, CEO, Brookfield Asset Management

Yes. Look, it's a good question. And the point I'd make is that we, over the years, we found that some businesses are good in the public markets and some not so good. And the housing -- we have a housing business, but the real business we have is land development. And where you make all the money is land development. And it's highly profitable, but it's highly irregular. And because of that, it doesn't accord to the public markets. And therefore, it will either be private on our own balance sheet or at some point in time, we may introduce institutional clients into it because they're private and they can understand what they're willing to deal with what I just described as opposed to the public market. So you will likely not see for us -- never say never, but you will likely not see from us a public entity in land development.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein, Goldman Sachs

I was hoping we could spend a couple of minutes on the path for management fee growth this year. It sounds like the fundraising momentum is going quite well. We've seen the same for many of your peers. So as you work toward the flagship super cycle, maybe kind of walk us through your management fee thoughts for this year and perhaps next year?

Nicholas Goodman, CFO, Managing Partner

Yes. So I think, Alex, as we look forward, it can be lumpy, right? Like there's going to be step changes with each fund that comes in, which is why we kind of like to look at it over a cycle and over a longer period of time. And so I think what we're working towards is consistent with what we would have laid out at Investor Day, which kind of had our FRE. If we are able to achieve the fundraising targets that we've laid out, that path would lead towards doubling of FRE over the next five years. And those step changes will largely come in line with the closings of those flagship funds.

And as we said, our opportunity, the debt opportunity fund had first closes, should have a final close in the coming months. We've launched the next real estate fund, transition fund is launched, and

infrastructure and private equity, I would say, within the next 12 months, conservatively. So I think that's going to be what's going to lead to the step change in the revenue. When you think about it in a five-year period, that's what leads to kind of thinking about doubling, while at the same time, we continue to grow the other strategies in our perpetual closed-end vehicles.

Alexander Blostein, Goldman Sachs

Got it. Okay, so no material fee there?

Nicholas Goodman, CFO, Managing Partner

Yes.

Alexander Blostein, Goldman Sachs

Got it. Okay. My follow-up is around BPY, and I think you partially answered that question a little bit earlier. But just thinking through the dialogues you guys are having with third-party LPs today, now the deal has been out there for a little while, what's sort of the appetite maybe in the expectation you have for third-party capital to participate in the transaction? And if you could remind us again your expectations on how this deal will ultimately impact FRE for BAM. I know there's a couple of moving pieces there, but I think you talked about that being generally neutral in the past. I'm just curious to get your updated thoughts.

Nicholas Goodman, CFO, Managing Partner

Sure. I mean, what we've laid out, Alex, is that we have a plan to privatize the business. I believe the offer out there is a fair offer, but that will work its way through the process, and believe that we can deliver significant value for that business in a private form. And we kind of laid that out in the letter this quarter.

And so I think, what we're careful is there, we have clients that are interested in this portfolio. They recognize its value and its attributes and would like to invest. And we're having those discussions, and we will give updates on them as they evolve. But we're balancing that against wanting the flexibility to be able to execute our plan. So we have to strike a balance between raising capital and still having the flexibility to execute the business plan. So as that evolves, we will keep you posted. All I can say is, for some of our strongest clients, this transaction has definitely piqued their interest. And we'll see how those discussions evolve.

On the FRE impact and development, again, it's going to be influenced by how much third-party capital we raise now. But I think over time, we expect to see new fund form creation around some of these assets, new strategies that will bring back some of the FRE through -- probably in higher form and private form where fees are based off of NAV and less on a public price that has been trading at a discount to NAV. So we think we create as high a quality revenue stream over time and that will be very long dated or potentially perpetual, but one that's based off true market value. But the exact numbers, again, will evolve over time. And for now, we've just been kind of thinking about maintaining the existing fee streams with BPY, maintaining its current form with some clients investing into the corporate entity.

Operator

Our next question comes from Robert Lee with KBW.

Robert Lee, KBW

Maybe first one, Nick, is I'm thinking about CAFDR. I mean a couple of years ago, , you guys had laid out that you kind of expected that or thought that would pretty much double over a five-year time frame. So in a year, cash flow is strong, outlook is pretty good. Care to venture, like should we be thinking that you're still -- you're pretty much set up to kind of get that mid-teens-plus cash flow growth over the next five years. Any reason not to expect that that's the trajectory?

Nicholas Goodman, CFO, Managing Partner

No. I think, Rob, that would still be the trajectory. Again, consistent -- I think we laid it out in September, but that would still be the consistent outlook.

Robert Lee, KBW

Okay. Great. And then maybe a little bit of a housekeeping question. Just update us on where things stand with the BAM R stock and the spinout of that to shareholders?

Nicholas Goodman, CFO, Managing Partner

So we're working through the process in filing the requisite documentation and working with the regulators. So I expect and think around the first half of this year, the original timeline that we laid out, would still be the rough expectation on that spinout.

Robert Lee, KBW

And then maybe one last question. I appreciate your patience. This is just on the core -- the perpetual core real estate products. I think you mentioned in the letter that maybe there's around \$12 billion of committed capital in those. But it's a small piece of the puzzle, but growing and important. Any sense of kind of what the flows have been or the new commitments to that? Is it kind of a steady pace quarter-to-quarter? And just trying to get a feel for how much that's maybe grown in the past couple of quarters.

Bruce Flatt, CEO, Brookfield Asset Management

So it's Bruce. The perpetual infrastructure and real estate products are income replacements for institutions. And I would say these are -- these type of products being cash -- high cash return relative to other fixed income and some appreciation, but very low risk, are highly attractive in the world that we are in today. And I think they're going to keep growing for a while. We have significant money coming into our infrastructure business at the current time. Real estate, just because of the sentiment that's out there, we have less capital coming in, but I think you're going to see that change as the market resolves itself over 2021. But these are both highly attractive products for people, and I think you'll continue to see money flow into them.

Operator

Our next question comes from Dean Wilkinson with CIBC.

Dean Wilkinson, CIBC

Nick, if I could just circle back on the BPY. Conceptually, if you were to look at sort of doing away with the dividend and not sort of rolling that up to the parent company and keeping it at that opco level, is there some tax savings? And it may be too early to answer that. And would that then naturally accrue to the planned value as opposed to an earnings stream? And how would you think about that going forward?

Nicholas Goodman, CFO, Managing Partner

Dean, I don't think there's anything material in that. I think BPY is going to continue to generate strong cash flow. It has these reinvestment opportunities consistent with today. But in excess of that, I think you should expect to see continued distributions. And I don't think there's any material tax analysis really to be done around that, that would change our thinking.

Operator

Our next question comes from Brian Bedell with Deutsche Bank.

Brian Bedell, Deutsche Bank

Most of my questions have been asked and answered, but maybe just a couple more. Maybe just one more on the cadence of the fee revenue growth. Maybe just some perspective on -- obviously, we'll get the step function growth in fees from the new fund launches. But also on the deployment, it sounds like you're being more patient with that. So I just wanted to get a sense of that \$330 million of committed capital that work its way into fee-paying AUM, if you think that sort of is going to move up maybe roughly around the same pace as the fundraises or be sooner or later.

Nicholas Goodman, CFO, Managing Partner

Yes. I think that's divorced from fundraising. That would be capital that's raised and committed today. A large part of it would be things like the latest distressed debt fund where capital is paid on invested as opposed to committed. But that capital, in that fund, we're seeing very good investment opportunities. I believe we're over 40% invested or committed now in that fund. And despite the broader strength in the public markets, they're still seeing strong private lending opportunities. So I think we expect to see a decent continued cadence of investing of capital there.

And the balance would be stuff in our funds where we hold capital back because we have follow-on investment opportunities. So not necessarily thinking about new opportunities, but it's about follow-on investment opportunities into assets we already own or development we've already committed to. So you should expect to see that capital being steadily invested over the next couple of years.

Brian Bedell, Deutsche Bank

Okay. That's helpful. And then maybe just one on the Global Transition Fund. Maybe just longer term, what do you view as the addressable market for this? Obviously, there's a lot of momentum in moving towards net neutrality or net zero. And clearly, a large market for more assets to be invested. But obviously, \$7.5 billion is a nice -- is a large fund to start with. If you can maybe just give us your thoughts on what do you think the longer-term addressable market is for these types of investments and whether

you think you might be able to actually create more funds without going through the investment period on this one.

Bruce Flatt, CEO, Brookfield Asset Management

On the last point, don't know. We'll have to see. Look, when we create a fund, we'll invest that capital, and then we'll move on to another one. How quickly we invest the money, we'll have to see.

As to the addressable market, we think it's very large. And we think that given our position and given what we've done with our business over the years, as you may know, we were a very carbon-intensive business 25 years ago. And today, we're net zero. So having that pedigree, we think we can assist companies. We have the operational ability to do it. And what we have is capital to provide to businesses to assist them to do this. And so we'll have to see how big it is, but we think there's going to be a lot of opportunity in this transition. And it could become a very, very large business for us.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Suzanne Fleming for closing remarks.

Suzanne Fleming, Managing Partner, Brookfield Asset Management Inc.

Thank you, everybody, for joining us today. And with that, we will end the call.

Operator

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