

# Letter to Shareholders

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## Overview

Our first quarter results were exceptional. Funds from Operations (“FFO”) and distributable earnings both set quarterly records at \$2.8 billion and \$2.5 billion, respectively. On a rolling-12-month basis, FFO was \$7.1 billion – the result of strong operating results across most of our operations, increased deployment of capital in our funds, and a number of disposition gains. We sold \$13 billion of assets which generated \$6.4 billion of gains – \$1.8 billion for BAM and \$4.6 billion for our clients.

We expect our strong results to continue, as those operations affected by the shutdown are all now recovering. As a result, like many businesses, we expect that the coming quarterly comparisons to last year will be very strong.

We are raising capital for a number of large funds that will have first closes this year. Those closings, continued deployment of capital into new opportunities, and asset sales into a strong and liquid market should all continue to provide momentum to our operating results.

With regard to BAM Re, our newly organized insurance subsidiary, we expect the prospectus for your share distribution to be approved and the spin-off to be completed by early July, and we are excited about taking this next step.

## Market Environment

Economies around the world continue to recover from the pandemic, with most countries emerging slowly from lockdowns. While it’s not happening as quickly as we would all like, it is clear that we are moving into the recovery phase in most economies around the world as vaccinations take hold. Capital markets, flush with liquidity provided by central banks, have already predicted and priced this recovery in for some assets and securities. As a result, we are being selective with our investment strategies in the stock markets, although there are still spots globally – and businesses specifically – that offer opportunity.

Investors betting on rising interest rates are expecting more good news, in that they are predicting that GDP growth will follow. While short rates are still effectively zero, long-term interest rates have moved off a very low floor and are now increasing towards 2%. While a large move up from where they were, today’s interest rates are still incredibly low on any historical measure.

Our ideal macro backdrop is reasonably good global growth combined with “lowish” interest rates. We believe these conditions will play out during this up-cycle. As a result, our strategies for alternative investment should continue to be among the exceptional places to be invested for years to come.

## Operating Results

We generated \$2.8 billion of FFO during the quarter. Fee-related earnings increased by 29%. We continued to sell mature investments, which generated \$1.8 billion of disposition gains for our balance sheet, and \$681 million of carried interest realization during the quarter. These elements brought distributable earnings to \$6.1 billion or \$3.97 per share, over the last 12 months.

AS AT AND FOR THE 12 MONTHS ENDED MARCH 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2017	2018	2019	2020	2021	CAGR
Distributable earnings (DE) – Per share	\$ 1.34	\$ 1.56	\$ 1.70	\$ 1.77	\$ 3.97	31%
– Total	1,960	2,294	2,487	2,661	6,110	33%
Fee-related earnings (before performance fees)	691	791	889	1,284	1,520	22%
Gross annual run rate of fees plus target carry	2,058	2,465	3,100	5,561	6,637	34%
Total assets under management	245,205	282,731	365,957	518,956	609,075	26%

### ***Assets Under Management are Growing***

Assets under management and fee-related earnings continued to grow, with both the size and the scope of our funds increasing. Over the last 12 months, fee-bearing capital and fee-related earnings grew by 21% and 18% respectively.

We are in the early stages of fundraising for our next round of flagship funds, targeting \$100 billion of capital. This includes the launch of our fourth flagship real estate fund, and the Brookfield Global Transition Fund, as well as being in the final closing of our flagship distressed debt fund. In addition, over the next 12 months, we expect to be back in the market with our next vintage flagship infrastructure and private equity funds.

The sustained low interest rate environment combined with institutions' need to earn returns from alternatives has created a very constructive fundraising environment. In addition to the flagship funds, we are steadily growing our perpetual core private fund products, which take in capital on a quarterly basis. Success on these two fronts should drive another step change in our fee-related earnings, potentially doubling them over the next five years.

### ***Monetizations are Driving Carried Interest and Gains***

In the current low interest rate environment, demand for the type of assets we own is strong. Many of our businesses are critical infrastructure assets that are underpinned by long dated, contracted or regulated cash flows. With the capital markets being highly accommodative, we have been monetizing assets. This has resulted and will continue to result – in both investment gains and carried interest being recognized into income.

During the quarter we sold \$13.0 billion of assets. This resulted in the realization of \$6.4 billion of investment gains, including \$1.8 billion for BAM, and \$4.6 billion for our clients. On the client gains, we realized \$681 million of carried interest into income. We also have a further \$5.4 billion of accrued carried interest to be recognized into income at a future date, which is not recorded in our accounts due to both our conservative accounting methodology and the terms of our funds. A few notable monetizations in the first quarter include an IPO of a solar products business, the private sale of a life sciences real estate portfolio, and two secondary offerings of our graphite electrode manufacturer.

We also continued to sell assets directly off our balance sheet, and generated large disposition gains during the quarter. This included a portion of our shares in Brookfield Renewable and West Fraser. In addition to these gains from our own investment portfolio, further fund monetizations should generate upwards of \$1 billion of gross carried interest this year.

## ***Our Liquidity is Very Strong***

Our balance sheet has never been stronger, with total capital availability at approximately \$80 billion: \$18 billion of corporate liquidity and \$62 billion of fund capital. In addition to making asset sales, we continue to strengthen our debt structure. We issued an inaugural \$500 million green bond in April with an interest rate of 2.724% for 10 years. This is the lowest coupon we have ever paid for a 10-year term. The proceeds will be used for green initiatives, but to keep our debt unchanged we have called approximately \$500 million of 2023 bonds. The net result is that we have extended the duration of our debt and lowered the average interest rates.

The combination of strong markets and realizations means we have more than enough cash on hand for both the announced privatization of BPY, and when market opportunities arise, the repurchase of BAM shares which are being issued to close the BPY transaction.

## **Interest Rates are Still Very Low**

We believe central banks will be successful in engineering GDP growth and increased employment, which will in turn allow central banks to increase short rates from the zero bound level they have been tethered to for over a year. The ideal scenario is to have short rates in the U.S. increase slowly from zero to 2-ish% in the 2022/23 period. If this is in fact the case, a 10-year treasury note may see  $\pm 3\%$ ; this will mean global economies are doing well, creating a very constructive environment for the assets we own.

Many of our assets benefit from inflation protection, in addition to low-ish interest rates. It is very important to note that short rates at roughly 2% and long rates at roughly 3% are still very low compared to what has historically been reflected in underwriting the investments we make. In addition, rising rates generally means GDP is growing. Most of our businesses are resilient in tough environments but more valuable when underlying fundamentals are strong. The ideal conditions for us are strong economic growth combined with somewhat higher rates.

The only scenario that would be disruptive is short rates increasing precipitously to 4-5% due to out-of-control inflation, and no growth in the underlying economies (stagflation). However, we do not expect this to arise in this cycle, and therefore we expect the environment to be constructive.

The return demanded for most of our investable asset classes have come down due to the decrease in risk-free rates globally, producing increases in asset values. The one laggard is commercial property assets, which are only now starting to move up. We would normally have seen values rise before now in response to the interest rate reductions; however, this hasn't yet happened as a result of the perception of the impact of Covid and all that came with it in terms of real estate. As this perception abates, and in particular as people re-occupy offices globally, there is room for cap rates to move down and value to go up. If views toward commercial property strengthen, the appreciation of assets should occur irrespective of modest interest rate movements upward, as the spread of cap rates over interest rates is currently one of the widest ever.

## **Privatization of Brookfield Property Partners**

We have formally agreed with the special committee of BPY to privatize Brookfield Property Partners. The transaction should close around the end of the second quarter, subject to regulatory approvals and the favorable vote of the BPY unitholders. We believe we are paying a fair price, given the trading values of other property companies in the stock market, but we should be able to do more with BPY's assets once they're privately owned than BPY could do with them under the constraints affecting a public entity.

Unitholders of BPY can choose to receive proceeds of \$18.17 per BPY unit in the form of cash (permitting them to move on to other investments), preferred shares (which will pay them a similar dividend to what they received before), or Brookfield Asset Management Class A shares (where they will be able to stay invested with all of us). We believe the offer is in the best interests of BPY – and the Special Committee, with the assistance of its advisors,

has agreed with us. Most importantly, we believe BPY unitholders who receive Brookfield Class A shares will have a greater opportunity to compound wealth than if they remain invested in BPY.

The tone in the market for commercial property assets is very negative at the moment. Real estate stocks have been trading as though no company will ever occupy an office again, no person will ever set foot in a store and nobody will ever travel again, for either business or leisure. We do not believe that any of these will be the case, and so we are investing accordingly.

## **Culture is Everything**

Part of our confidence in our real estate business stems from our long-term perspective, and our having been in the business for many decades. The other factor is our experience in building a company culture. There has been a debate going on in the news globally about whether a company should have office space, or whether instead it can merely exist online. Our view is that in the short term many survived without an office, but in the long term, a company will not prosper without the interaction that comes with people working together in an office. We come to this conclusion for numerous reasons, but mostly because of Culture.

Clayton M. Christensen, James Allworth and Karen Dillon captured the meaning of Culture in a section of their book “How Will You Measure Your Life?” It goes as follows:

Culture is a way of working toward common goals that have been followed so frequently and so successfully that people don't even think about trying to do things another way. If a Culture has formed, people will autonomously do what they need to be successful. These instincts aren't formed overnight. Rather they are the result of shared learning—of employees working together to solve problems and figuring out what works.

The advantage of this is that it effectively causes an organization to become self-managing. Managers don't need to be omnipotent to enforce the rules. People instinctively get on with what needs to be done.

As far back as ancient Rome, emperors would send off an associate to govern a newly conquered territory thousands of miles away. As the emperors watched the chariot go over the hill—knowing full well they would not see their associate again for years—they needed to know that their understudy's priorities were consistent with their own, and that he [or she] would use proven, accepted methods to solve problems. Culture was the only way to make sure this happened.

We are not in Roman times, but the Culture of an organization is often the difference between those seemingly always able to make good decisions, and those which often seem to make bad decisions. To make this specific point, we ask you to pause and reflect on companies and management teams you have invested with. We suspect that when you do so, you will find a strong Culture in the great companies you've invested with, and a weak Culture in the average to below-average ones. This is not an accident.

This leads us back to office space. We believe the Culture of a company can only be maintained with a physical presence. Video technology can assist, but it cannot replace physical presence. Companies without a distinct Culture will slowly die over time if they try to get by on video interaction. Of course, some jobs can be done from home, and many specific activities in fact are augmented by video technology, but offices are a very important part of bringing people together in order to build trust for advancing goals and dealing with the inevitable tough times all organizations face on occasions. Furthermore, without the learning that is passed on from more experienced colleagues to younger generations—and the camaraderie created by an office—there is no link

between humans. With no links between humans, a Culture does not exist, and with no Culture, eventually there will be no company.

We look forward to seeing you at the office.

## **Infrastructure Privatization is Accelerating**

Infrastructure assets continue to move into private hands; institutional capital is increasingly available for investment in infrastructure; and the stability of cash flows over the last year has proved the durability of the infrastructure business.

During the last year, two very significant macro events occurred. Each adds very substantially to the positive backdrop for global infrastructure investment. The first is that to create the stimulus programs to combat the pandemic, virtually every government in the world borrowed more money than they ever imagined and have yet to address the question of how to pay it back.

The second is that interest rates were reduced very substantially and unless central banks get it wrong in exiting this period, they look to stay “lowish” for this cycle. As a result, institutional investors increasingly turn to alternative investments to enhance returns as they continue to rotate out of low-yielding government bonds.

With respect to repaying government debt, there are only two ways out: economies must grow and generate increased taxes to ensure that the debt can be serviced and reduced, or assets must be sold. For a government, asset sales generally mean the sale of infrastructure assets and/or letting others (the private sector) make future investment when they are required. As a result, private infrastructure spending is set to increase in a step change fashion. This will create opportunities for private investors for decades.

Using just two examples, the global economy will require trillions of dollars of investment to bring 5G to their citizens (cell towers, data centers, fiber) and to transport natural gas to Asian economies so they can decarbonize away from coal. Farther away, the capital required to decarbonize the electricity grid and transition away from fossil fuels is one of the greatest investment undertakings to have ever been contemplated.

The returns earned from our infrastructure investments have been excellent. The  $\pm 15\%$  compound annual returns we've realized over 15 years would be a strong return in any asset class, but given the durability of infrastructure cash flows, it is even more exceptional. The cash-flow durability showed through during 2020, as every asset of ours was deemed essential and, with very few exceptions, generated the cash flows that were expected. This means infrastructure has passed the test and has become a full-scale asset class for investors – a far cry from where we started 20 years ago. As a result, we are now in a growth cycle of opportunities to invest, greater capital available to put to work, and a very strong backdrop to the business.

Even with an extremely positive backdrop, business is never easy; others have observed these same trends and are investing directly or raising third-party capital to invest into infrastructure. As a result, we have to be creative with our deals, but as always we will utilize our global reach and scale of operations to differentiate our capital from that of others. We think the odds favor a good decade ahead.

## **Our Business is About Planting Seeds and Then Harvesting the Crops**

Our business is about buying and growing businesses. We buy in areas in which we have expertise; we then try to operate the assets well; and finally we harvest cash from those assets when it makes sense. Some years are better for planting seeds, others are better for harvesting. Rarely are both exceptional at the same time, in the same place. This is why being diversified by business and country is important.

During 2020, we made many investments and deployed substantial capital. As we turn to 2021, the capital markets in developed markets are robust and we are monetizing assets at excellent values. On the other hand, in some

markets like India, China, and Europe, markets are less flush with capital and therefore offer opportunities for buyers. In addition, some businesses were more affected by the pandemic – such as hotels, travel, tourism, in-person retail and other businesses which rely on human touch. Many of these sectors need capital, and we are focused on a number of them.

On the opposite end of the spectrum, there are times when it is good to sell assets and times when it is not. It is better to sell when markets are robust. In the first half of 2020, most private assets were not saleable at reasonable prices, so we sold almost nothing. Our results reflected it.

Today, on the other hand, it is time to harvest in many places. Central banks have put enormous stimulus into developed economies to ensure markets recover from the recession, resulting in substantial availability of capital. Therefore, in the last quarter of 2020 and first quarter of 2021, we harvested substantial cash through asset sales – resulting in \$19 billion returned to clients and \$5 billion added to our balance sheet, with most of these sales in excess of our view of long term value, and almost all in excess of IFRS values.

## Closing

We remain committed to being a world-class asset manager, and to investing capital for you and the rest of our investment partners in high-quality assets that earn solid cash returns on equity, while emphasizing downside protection for the capital employed. The primary objective of the company continues to be to generate increasing cash flows on a per-share basis and, as a result, higher intrinsic value per share over the longer term.

And do not hesitate to contact any of us should you have suggestions, questions, comments or ideas you wish to share.

Sincerely,



Bruce Flatt  
Chief Executive Officer

May 13, 2021

## **Cautionary Statement Regarding Forward-Looking Statements and Information**

All references to "\$" or "Dollars" are to U.S. Dollars. This letter to shareholders contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements which reflect management's expectations regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Brookfield Asset Management Inc. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could." In particular, the forward-looking statements contained in this letter include statements referring to the impact of current market or economic conditions on our businesses, the future state of the economy or securities market, the expected future trading price of our shares or financial results, the results of future fundraising efforts, the expected growth, size or performance of future or existing strategies, future investment opportunities, or the results of future asset sales. In addition, forward-looking statements contained in this letter include statements regarding the privatization of our property business, including the impact such privatization may have on our business and the actions we may take following such privatization. References in this letter to the "Value" of our shares are forward-looking statements. Additional detail regarding how we measure the Value of our shares can be found on page 5 of our Q1 2021 Supplemental Information which can be accessed here: <https://bam.brookfield.com/reports-and-filings/financial-reports-supplemental-information>.

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, including the ongoing and developing COVID-19 pandemic and the global economic shutdown, which may cause the actual results, performance or achievements of Brookfield Asset Management Inc. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: (i) investment returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business including as a result of Covid-19 and the related global economic shutdown; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes and epidemics/pandemics; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage; (xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including our real estate, renewable power, infrastructure, private equity, credit, and residential development activities; and (xxv) and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive and other factors could also adversely affect its results. Investors and other readers are urged to consider the foregoing risks, as well as other uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

Expect where otherwise indicated, the information provided herein is based on matters as they exist as of the date hereof and not as of any future date. Unless required by law, we undertake no obligation to publicly update or otherwise revise any such information, whether written or oral, to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date hereof.

Past performance is not indicative nor a guarantee of future results. There can be no assurance that comparable results will be achieved in the future, that future investments will be similar to the historic investments discussed herein (because of economic conditions, the availability of investment opportunities or otherwise), that targeted returns, diversification or asset allocations will be met or that an investment strategy or investment objectives will be achieved.

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