

Brookfield

TRANSCRIPT: Q1 2021 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
- Stewart Upson, Managing Partner, Regional Head of Asia Pacific

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brookfield Asset Management First Quarter 2021 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 First Quarter 2021 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer; Nick Goodman, our Chief Financial Officer; and Stewart Upson, Head of our business in Asia Pacific.

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, Stewart will give an update on our business in APAC. 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 and 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 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.

And with that, I'll turn the call over to Bruce.

Bruce Flatt, CEO, Brookfield Asset Management

Thank you, Suzanne, and hello to everyone on the call. We started the year with strong results. We earned record levels of both FFO and distributable earnings. What a difference sometimes a year makes. Results benefited from strong operating results across our businesses, supplemented by significant gains from asset sales and carry realized in the quarter. We made progress in executing on our capital recycling initiatives and generated substantial gains for shareholders and clients. Nick will touch on a number of these items in more detail in his remarks.

Looking at the market environment, it is clear that we're in a recovery phase in most countries around the world as each progresses their vaccine rollouts and emerges from lockdowns. The snapback of recovery is pleasing to observe. Some countries are recovering faster than others, I would note, the United States, the U.K., Australia and many countries within Asia, which Stewart will talk about. And we're encouraged to see these countries begin to return to a normalcy. I was personally in a number of cities last week across the United States, and I can attest to travel starting back strong and retail demand recovering.

Today, we have Stewart Upson with us, as Suzanne mentioned. He's our Managing Partner and Regional Head of Asia Pacific, responsible for overseeing activities in that region. He will provide an update on our operations in the region, opportunity set we're seeing today, and insight into what we are seeing in each of those various economies. Stewart stayed up most of the night to be able to speak to you as he's currently in Sydney. So thank you, Stewart, and we hope all of you on the call will benefit in some way from his comments.

Capital markets today are very robust. Interest rates remain low, and the demand for the type of assets we own is strong and getting stronger. While we expect interest rates will rise slowly over the next few years, we also believe that combined with that, central banks will be successful in engineering GDP growth and employment increases, which has already started.

That will mean that global economies are doing well. At the same time, this will be a very constructive environment for our asset management business and for the assets we own for a number of reasons. In this low-ish rate environment, investors will continue to look for fixed income alternatives to meet required returns. This will drive inflows to alternative strategies, which will further benefit the scaling of our existing flagship strategies. It will also be positive for our perpetual fund offerings.

This provides a strong backdrop for our flagship fundraising, including our fourth real estate flagship fund soon to have a first close and our Global Transition fund soon thereafter. More broadly, investor interest for all of our funds is stronger than we have ever seen. As a result, we expect these funds to be larger than predecessors and therefore, add significantly to fee-bearing capital. We also continue to deploy significant capital for our two other flagship funds, infrastructure and private equity, and we expect to begin fundraising for the next vintage of each later in the year or early in 2022.

As all of you know, global central banks have pushed an enormous amount of stimulus into developed economies to ensure markets recover from this recession. This has led to substantial availability of capital in most markets. This global stimulus has largely been funded through borrowed money, and governments will need to consider ramifications of how to pay it back. This will require one of two measures, probably both. Economies will need to grow and generate increased taxes to service the debt, or assets will need to be sold.

For governments, asset sales mean the sale of, or future avoidance of, infrastructure spending. As a result, the shift of infrastructure spending is set to increase in a meaningful way and will create opportunities for

infrastructure investors like ourselves for decades. And while this is an extremely positive backdrop, the other side of the coin is that many asset valuations are high. It does make it harder to find investment but allows us to raise substantial cash with asset sales.

Through the last quarter of 2020 and the first quarter of 2021, we returned \$19 billion to clients and \$5 billion to our own balance sheet. This generated just in the first quarter, \$6.4 billion of realized gains, and there's more to come in the second quarter we are in. This has put us in the strongest cash position the company has been in ever, and also generated substantial realized carried interest, which is our portion of client gains, into income. And it looks like the rest of 2021 will also be strong in this regard. But as always, we are active, putting money to work using our global reach and access to capital to achieve success. In a competitive environment, we need to even be more creative to find value.

Since we last spoke, we have further progressed our efforts to spin out our reinsurance business by filing our prospectus and expect that all regulatory requirements will be cleared in the near term. Your new shares should be in your hands by the end of June or early in July.

Lastly, we came to an agreement with the Special Committee of Brookfield Property Partners and their advisers to privatize BPY. We believe that this transaction is in the best interest of our BPY partners and ourselves. The Special Committee and their advisers have agreed with us. This offer gives BPY shareholders a number of alternatives. But for the BAM portion of what they receive, we believe it will give them a greater chance to compound wealth as a part of overall Brookfield than they would otherwise have been able to, had we left BPY the way it is.

We have more than enough cash to fund the privatization and as opportunities arise, to repurchase the BAM shares, which are being issued to close the BPY transaction.

Thank you, again, for your continued support, and I will now turn it over to Nick to discuss the financial performance in the quarter.

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Thank you, Bruce, and good morning, everyone. We have continued the momentum from Q4 of last year and started this year with very strong financial results. The results are supported by continued strength in our asset management business, resiliency of our operations and realizations from our capital recycling initiatives. And the outlook for the business remains very positive with upcoming fundraising initiatives set to deliver step change growth in our asset management earnings, the reopening of the global economy poised to further enhance operating results, and the current market backdrop expected to support ongoing capital recycling initiatives.

As we have discussed in the past, many of the businesses and assets that we own are critical infrastructure assets or very annuity-like and generate very stable, predictable cash flows that are predominantly contracted or regulated. And in the current economic environment of low interest rates and excess liquidity, the demand and market valuations for these assets is very high.

During the first quarter, we sold approximately \$13 billion of assets across the business at a significant premium to what we paid for them. Of note for you also is that many were sold at substantial premiums to their IFRS carrying value. As a result, we realized approximately \$6.4 billion of gains, and that would be \$4.6 billion for our clients and \$1.8 billion for Brookfield. And on the client gains, this realized carried interest of \$681 million for us.

Just as a reminder, we adopt a conservative approach to realizing carried interest in our financial statements. We only record carried interest into income when three criteria are met. The fund has returned all of the original capital to clients, it is through the client's preferred return, and the recognized amount has minimal risk of claw back.

As our earlier vintage funds are now starting to mature and business plans have been completed, our asset sales activity has increased significantly. This is crystalizing significant gains and leading to increased levels of carried interest being realized into income. In the last five years, we have recognized just over \$2.5 billion of gross carried interest. But of note, close to half of that has been realized during the last six months.

Today, we have \$5 billion of accumulated, but unrealized carried interest, that we expect to be recognized into income as we continue to execute asset sales. And while this will transfer into income, our new funds are larger and if we do our jobs right, we expect to be adding greater amounts to the balance as our newer vintage funds continue to create value. Our progress in this regard can be tracked in our quarterly supplemental.

In that vein, we recently announced the sale of our U.K. smart meters business, realizing 4.7x our investment and an IRR of 58%; the sale of two wind portfolios in Ireland and the U.S., realizing IRRs of 12% together, sold an interest in the U.S. pipeline business, realizing an IRR of 21% and a multiple on invested capital of 2.4x, and we recently signed an agreement to sell several office towers in Australia. On the basis of this activity and our future pipeline, we continue to feel our target of realizing \$1 billion of gross carried interest into income for the calendar year is achievable.

Turning to results. Total funds from operations or FFO in the first quarter was \$2.8 billion, or \$1.80 per share, which was more than a threefold increase compared to the prior year quarter. Our operating FFO, which excludes the impacts of disposition gains and realized carried interests, was \$777 million in the quarter, or \$0.48 per share. All of this resulted in income to shareholders in the quarter of \$1.2 billion, or \$0.77 on a per share basis.

Fee-bearing capital increased by \$7 billion to \$319 billion at quarter end, and is up by \$55 billion over the last 12 months, which led to strong growth in fee-related earnings. Those fee-related earnings increased to \$413 million for the three-month period and totaled \$1.5 billion over the last 12 months, an increase of 18% from the prior period. We have an additional \$33 billion of committed capital that will become fee-bearing once invested, translating to approximately \$330 million of incremental fee revenues annually.

Turning to invested capital. Excluding disposition gains, FFO for the quarter was \$364 million, which is a decrease of 8% from the prior period. We continue to benefit from strong organic growth and capital deployment in most of our operations, however, this was offset by the impacts of temporary shutdowns in some of our hospitality and retail operations, decreases in our ownership of our renewables and infrastructure businesses following secondary sales over the last 12 months, and the sale of the majority of our interest in West Fraser, which triggered a change in accounting basis, meaning we no longer pick up our share of the underlying earnings of the company.

To align with methodology used within the alternative asset management industry, we renamed our “cash available for distribution” performance measure as “distributable earnings”, or DE. As a reminder, we provide DE before realizations, which tracks and demonstrates the stability of our core operating results and removes the variability of realizations that are subject to timing and other factors. And we provide

total DE, which includes realizations and incorporates realized carried interest, and also now includes realized gains on principal investments.

DE before realizations increased 29% over the last 12-month period. The increase is largely driven by continued growth in our asset management franchise as well as increased distributions across our listed affiliates. Including realizations, DE was \$6.1 billion over the 12 months, an uplift of 130% over the prior year period.

Our liquidity remains very strong. In addition to \$62 billion of uncalled funded commitments, we have approximately \$18 billion of core liquidity, including close to \$9 billion directly at the BAM level. All of this adds to a total of \$80 billion of deployable capital.

Our balance sheet continues to remain conservatively capitalized, with 94% of our debt having no recourse to the corporation. In April, we issued an inaugural 10-year green bond with a coupon of 2.724%, the lowest coupon we have ever issued for a 10 year. The proceeds will be used for green initiatives, but to keep our debt at similar levels, we also called approximately \$500 million of 2023 bonds. The net result is that we will extend the duration of our debt and lower the interest rates.

Today, our corporate debt to market capitalization ratio is 11% and average remaining term on our corporate debt is 14 years. We have no individual piece of debt maturing before 2024. When compared to our corporate balance sheet, with \$9 billion of cash, financial assets, and undrawn capacity on our credit lines, over \$50 billion of investments and \$9 billion of additional core liquidity in our listed affiliates, this makes us financially very strong.

Finally, I am pleased to confirm that our Board of Directors has declared a \$0.13 per share dividend payable at the end of June.

With that, I will turn the call over to Stewart.

Stewart Upson, Managing Partner & Regional Head of Asia Pacific, Brookfield Asset Management Inc.

Thank you, Nick, and good morning, everyone. Today, I'm going to talk about our Asia Pacific, or APAC, business, which currently includes investments in operations in Australia, New Zealand, China, Japan and South Korea. I will provide an overview of our scale in the region, an update on our operations and an insight into our growth aspirations in the region.

We have \$57 billion of AUM across the region with over 100 investment professionals and more than 30,000 operating employees, which represents significant growth from when we first started investing in the region. As with any new market, we have taken a long-term, patient approach to expanding our presence in the APAC region. We've been focused on countries and markets that have a strong respect for capital, supportive capital markets and a large market that will allow for significant scale to be built over time. As we potentially expand in the region to new markets, we will be focused on ensuring that any target market that we enter meets all of these criteria.

If we go back to where it started for us in the region; it began in 2006 with the commitment to acquire a property owner and construction company headquartered in Sydney. This initial investment was soon followed by the acquisition of Prime Infrastructure. Both of these transactions laid the foundation for our Australian and New Zealand business, which now has \$31 billion of AUM across infrastructure, real estate and private equity.

The portfolio today, across these two countries, consists of office buildings, railways, ports, data infrastructure, healthcare, construction and retirement living. We have used our operating expertise to develop and construct new assets, expanding existing assets, sign new leases, execute new long-dated contracts for our infrastructure assets and implement cost improvement plans to drive strong returns. All of our businesses are performing well. Our real estate assets, with 5 million square feet of office space, are currently 94% leased to strong counterparties, complemented by a quickly improving leasing market. As the economy has begun to reopen, we have also seen office occupancy levels improve to close to 50%, and it should be closer to 100% over the next number of months. Our infrastructure and data assets are underpinned by long-dated contracts and the strong commodity backdrop is giving rise to potential expansion projects at our rail business. Our private equity investments are also performing well, underlining the quality of the businesses that we own in the country. Consistent with the comments from Bruce and Nick around monetizations, we've also been selling select assets in Australia and New Zealand, where low interest rates and high levels of liquidity have resulted in increased levels of demand and valuations for the assets we own. We recently sold an interest in two office buildings at very compelling valuations, sold a pathology business in New Zealand, and late last year, we took our port terminal in Queensland public.

As we think about deployment, we remain focused on growth via development in our office and data businesses, and targeted acquisitions where our scale or operating expertise put us at an advantage. Future capital rotation will also come from selective asset sales of our mature investments, and we expect to be busy on all fronts in the coming months.

As we scaled up in Australia, we also started to focus on setting up the foundations for growth in the Asia Pacific region. We have spent time over the last 10 years opening local offices in Shanghai, Tokyo and Seoul; hiring local investment professionals and building conviction in these markets. We have remained patient in each of these markets, making sure that we understand the country's economic backdrop, how it operates and have developed key local relationships that have given us the confidence to start putting meaningful amounts of capital to work.

With regards to China, we have operated in the country since 2012, initially focused on educating ourselves on how the country does business and reviewing many transactions to build up our conviction on deploying capital. We subsequently opened our Shanghai office in 2014 and in the same year, we completed our first transaction in the country with an investment into a portfolio of prime office and retail assets. As part of the investment, we are able to second several senior Brookfield team members into the company. And although we have since exited this investment, we generated attractive risk-adjusted returns and leveraged this experience to develop our capabilities in the country. Our presence in China has grown to more than \$4 billion of AUM across office, retail and logistics properties as well as renewable power assets. I would like to highlight a few of our more recent China investments that are emblematic of this approach.

First, in 2019, we acquired a large mixed-use office and retail development, which we renamed One East, from a Chinese developer. This project consists of three office towers in a retail mall on the Huangpu River front in Central Shanghai. Construction and permitting risk remained with the seller, providing downside protection and allowing us to focus our efforts on creating value through the leasing and activation of this asset, utilizing the expertise of our local operations team. Despite the challenges faced last year, our office towers are now 55% leased, likely increasing to 70%+ shortly and fully leased by year-end.

Our retail mall is now 75% committed with a soft opening occurring later in May. All of this has been made possible by our in-house team at Brookfield Properties who negotiated the second largest office lease in Shanghai for 2020 at One East and have brought several “new-to-China” tenants to our retail offering as well.

As a second example, in 2017, we established a renewable energy joint venture with a China-based global logistics developer that we have known for years. We are leveraging their local presence and our best-in-class renewables operations. This investment focuses on the installation of distributed rooftop solar panels on industrial sites in major markets. This partnership has proven to be very successful to date with installed capacity of close to 180 megawatts, a further advanced pipeline of 220 megawatts and a rapidly growing partnership. We expect this business to have an installed capacity of over 1,000 megawatts by 2023, supporting China's long-term goals of carbon neutrality.

Our Shanghai office continues to grow, and we have around 100 people covering all of our major platforms, including 20 investment professionals to support the continued growth of our business. China's successful control of the pandemic has led to a resurgent domestic economy and a rebound in consumer and corporate confidence. As an indication of this, we have seen this at our own community mall portfolio in Shanghai. Retail sales and traffic are now above (that is greater than) 2019 levels.

This domestic economic strength has allowed the Chinese government to focus on key macro initiatives, including the further deleveraging of strategic sectors, including residential developers. And this in itself is creating opportunity. We believe these Chinese government initiatives give rise to a need for operationally minded capital and are highly constructive to our ongoing growth plans in China. As we go forward and continue to build confidence, we will further expand our sectors of focus while remaining centered on our global areas of strength.

Moving on to South Korea, we made our first investment in the country in 2016 with the acquisition of IFC Seoul, a landmark mixed-use development comprising 5.5 million square feet of office, retail and the Conrad Seoul Hotel for \$2.2 billion. This acquisition was large and needed creative structuring as well as operating strengths.

This is where we excel, and we are using these strengths in Asia. We immediately put our teams to work on improving overall leasing and operations in an effort to increase office occupancy from the then 60% range and to revitalize a tired, externally managed retail mall. Despite last year, office occupancy now currently stands at 96%, and we've replaced over half of the retail tenancies, including adding Korea's second flagship Apple store, which opened in March of this year.

We also expanded our global logistics presence to Korea in 2020. We believe the secular tailwinds associated with e-commerce, demand in Asia, Korea, in particular, will prove to be highly compelling in the years ahead. At the same time, we continue to build upon our investment and operational presence to expand our investment verticals further, establishing our infrastructure and private equity platforms in South Korea as we speak.

In Japan, we have had very significant financial and operating partnerships globally with many Japanese players. We also raise substantial capital in the market for our funds. We've had an established investment presence in Tokyo for several years and are pursuing many opportunities. Our initial investment focus has been on logistics properties, renewable power and carve-outs from the industrial conglomerates. We expect the scale and scope of the opportunity set to continue to widen in the years ahead, and our strengths show well in Japan. This will increasingly be a larger market for us.

Today, investments in the APAC region accounts for approximately 10% of Brookfield's total AUM, but we expect that to grow over the next 10 years. Our scale is growing and could some time reach 25% of capital deployed. We're excited about the opportunities to continue to put meaningful capital to work across our core markets in the region.

I would like to end by commenting on our fundraising activities in the APAC region. We have a long and successful history of fundraising across each of the countries I've mentioned, and in many cases, well in advance of when we began making investments in these markets. We raise 20% of institutional capital from these markets, and currently have over 130 institutional investors across 10 different countries in the region. We raised \$5 billion in this region in the last year.

More importantly, we are regarded as a clear investment partner of choice among many Asia Pacific investors, having been voted in 2020 by Korean investors as the Best of the Best Real Estate and Infrastructure manager and also receiving the APAC Infrastructure Fundraising of the Year Award for 2020 from PEI.

Our journey in the APAC region to date recently culminated in the completion of Brookfield Place Sydney, which will be our new Asia Pacific headquarters. We worked nine years acquiring, developing and constructing the site, and it has been a great success for everyone. Our workforce and anchor tenants, including the Sydney headquarters for NAB bank, will move in later this month in a show confidence for the office market in our region.

To conclude, we are excited by the opportunities in the APAC region and our balanced focus and on the continued strong operational performance of our assets, alongside raising and deploying capital where we see opportunity, positions our Asia Pacific business well to drive further growth for many years to come.

With that, I will turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ken Worthington with JPMorgan.

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

As we go into the fundraising cycle where you're fundraising both flagship funds and funds focused on new strategies, should we expect to see any increased cost from distribution? I guess to what extent does Brookfield utilize third-party distributors, which could boost expenses temporarily? Does Brookfield expect to utilize Oaktree with the fundraising that it's pursuing? And is their compensation paid there? And then do you pay your own people more if they hit or exceed fundraising targets that might drive cost, even if temporarily, higher than what otherwise be the case?

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Ken, it's Nick. Listen, I think, a lot of the costs associated with raising the next round of flagship funds, you've probably seen, come through the numbers in the last six to 12 months as we've been building up our capabilities across different distribution channels. Obviously, as we develop new products, some of them might become more appealing to the bank channels and the high net worth channels where there

is an associated cost upfront. But in return for that, you kind of earn full fees across the life of the product. So I think on a net basis, it's no different to our usual fundraising. So I don't think you should expect to see an associated step change in cost associated with this round of fundraising any different than what you've seen in previous cycles.

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

Okay. Great. And then maybe moving on to insurance. Love to hear an update here. You've got stronger cash flow, stronger realized gains. The pipeline looks great. You do have deployment opportunities in BPY that are pending. But given just the large amount of – or the increased cash balances that you have on balance sheet, the better outlook for cash flow generation and your comments about really wanting to build up the insurance business. What are you seeing now? What can you do and what are your aspirations as we sort of move through the rest of the year in continuing to grow that business?

Bruce Flatt, CEO, Brookfield Asset Management

So I'll just start off, and then Nick can add anything, but I'd just say, first off, we're in the midst of closing the one transaction that we committed to. We're pre-investing into assets, which will then be formed into the reinsurance business upon closing. So we're – with some of the excess cash we have, we've been buying assets to be able to ensure we earn proper returns from day one, which is obviously a great advantage to our business.

On top of that, we are looking at other blocks of reinsurance and continue to bid on and look at blocks. And I think over the longer term, this is going to be a very additive business to Brookfield in many ways. Firstly, just the reinsurance business itself should be highly profitable and additive to Brookfield. But in addition to that, the capital will be able to be deployed in many of our assets, both to the enhancement of our businesses but also to the insurance company.

So we're quite – so far, we're very excited about the business.

Operator

Our next question comes from Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne, TD Securities Equity Research - Analyst

Thanks very much, and good morning. To start, I was hoping you could speak at a high level about the global impact fund and really whether that requires an education process or whether clients are set up and really ready to allocate capital and scale to that type of product.

Bruce Flatt, CEO, Brookfield Asset Management

So look, I'll start off by saying that there is no fund out there like the fund that we have created. This is – we're in the early stages of creating a new business for the alternative asset management industry, and it's an adjunct of other things we've done, but it's new for many of the investors. So that takes some education to where we're going and what we're trying to accomplish for them.

On top of that, I would say every investor in the world, or virtually every investor in the world, is interested in figuring out how they deploy money into this sector smartly. So we hope to be able to report to you. And as you know, we can't talk about fundraising specifically until it's completed, but we hope to be able to report to you that we've been able to attract a great number of investors into these strategies because the interest is very high, and I think we will be successful in that. And it will set a new standard for transition investing globally. So we're very positive about it.

Cherilyn Radbourne, TD Securities Equity Research - Analyst

That's very helpful. Second question, the letter makes an interesting comment about opportunistically repurchasing the BAM shares being issued to fund the BPY privatization. So could you speak about how much capital you envision reinvesting in the business over the next 12 months to support some of the emerging investment strategies? And how much might be surplus for share repurchases?

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Yes. Cherilyn, it's Nick. As Bruce and I just touched on in our remarks, our liquidity levels are very strong right now. Obviously, we have the BPY transaction closing in – around the middle of the year, which will, obviously, use, I don't know, somewhere in the range of \$3 billion of cash. And then we have a number of insurance transactions, closing, the one Bruce talked about, and potential future growth.

So I think we have reinvestment opportunities for growth. We have some new strategies that we're seeding on balance sheet that we've talked about in the past, which are going very well, and so are presenting good investment opportunity. So it's hard to put an exact number on how much will be left over for buybacks. And I think we've talked about this in the past, but it is something we're very conscious of and issuing BAM shares, we felt, was a very important part of the consideration for the BPY transaction. And on a relative basis, it made sense. But the intention was laid out in the letter that we do intend to buy those back, but it's hard to put an exact time frame on it.

Operator

Our next question comes from Bill Katz with Citigroup.

William Katz, Citigroup Inc. Exchange Research - Research Analyst

First question is a big-picture question and maybe feeds off your last answer. But there seems to be a bifurcation of how investors are valuing the alternative managers, putting significant premium multiples on balance sheet light models versus sort of balance sheet heavy models. As you think about your business on a go-forward basis, is there any way to think through related party risk and how you might manage the business to maximize value?

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Bill, the related party risk, you mean because we're invested in funds with their own capital alongside clients at times?

William Katz Citigroup Inc. Exchange Research - Research Analyst

Right. Just the quality – so the issue seems to be the quality of earnings coming from related parties, such as some of the limited partnerships to which you're the manager.

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

So I think – listen, I think the first part of your question around the balance sheet. It's just been a core element of our business since inception. As you know, we originate being an owner/operator of assets with a long-term perspective and believe that those investments we have on our balance sheet can compound very attractive value over a long-term basis for our clients and gives us significant scale and operating expertise, which is very important to driving value creation for our clients.

And I think I don't see any conflict or related party interest issue. I think where you're going is our responsibility and our focus is on driving value for our investors and for our clients and that is the priority. Often, we're very aligned in those intentions, and you've seen that with the capital recycling that we've done recently. So I think we're very aligned with our clients, and we are under no allusions to what the

expectations are as to drive value and to crystalize that value and return capital. I don't think there's any conflict in our structure.

Bruce Flatt, CEO, Brookfield Asset Management

The only thing I might add to that, just for your benefit is if stock markets come in vogue and out of vogue, this business has compounded at 18% for 20 years. And one of the great reasons it has that is because the capital we have has been aligned with our clients, and we can do different things for them and achieve different things for our clients and our shareholders because of the capital that we have. And it's an enormous strategic advantage. In the short term, that may or may not be seen in the stock market. But in the longer term, we believe having the capital on the balance sheet, and it's been proven in past, will allow us to achieve greater returns in that longer term.

We don't have any intention of splitting the capital from the business because we think it allows us to accomplish things for our clients different than others. And so that's sort of the answer to it.

William Katz, Citigroup Inc. Exchange Research - Research Analyst

Okay. Just a follow-up question for you. It certainly seems like the momentum in the business is accelerating based on what you've written in the commentary today. How does sort of the real-time outlook compare to maybe your recent Investor Day goals for 2025? I think you've sort of laid out a pathway to \$500-plus-billion of fee-bearing AUM and \$2.6 billion of fee-related earnings. Where do you sit today, you think, versus those trajectories?

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Bill, I think, we're still in line with that. I think we laid out at Investor Day the core business that we have, being the flagship fund strategies and the perpetual strategies and our listed affiliates, we're going to drive that growth between now and 2025. And then we would have newer strategies which are still under infancy, insurance, secondaries, technology and the Transition Fund, which is progressing well, but they were going to help contribute to that growth and then drive growth in year 6 to 10.

So I think what you're seeing right now is us making great progress in regard to the targets that we set ourselves over the next five years. And then we're also starting to lay those really strong foundations for that longer-term compounded growth.

Operator

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

Geoffrey Kwan, RBC Capital Markets, Research Division - Analyst

Just a question on the Global Transition Fund. Aside from the typical renewable deals that say, Brookfield Renewable would typically participate in. Just wondering how active have you been in terms of seeking out? And what has been the receptivity so far of the other types of deals? I think the fund is able to pursue like I'm thinking partnering with companies that are transitioning to a low-carbon or carbon-neutral target?

Bruce Flatt, CEO, Brookfield Asset Management

Yes. So the fund is set up to do anything that's additional in renewables. So in the infrastructure investments there were renewables that were already built, and aren't additional, meaning they're not creating new carbon neutrality. But – so those will be in our former funds. But in new greenfield developments, that will be in the Transition Fund.

And capital provided – the second bucket is capital provided to companies or otherwise to transition to net zero. And so, we are now out speaking to a number of groups. And think that there's a lot of opportunity in that sector as well. So we haven't yet closed on a first transaction for the fund. But in the next short while, we probably will.

Geoffrey Kwan, RBC Capital Markets, Research Division - Analyst

Okay. And then just my second question was, Stewart, you were talking about the criteria for expanding into new countries in Asia. And just wondering if you're able to say which countries appear to meet that criteria and what we might see them start investing it at some point in the near to medium term? And then, also, separately, just a typical timing and process on becoming experts and being able to assess and invest in new opportunities in such a new country.

Stewart Upson, Managing Partner & Regional Head of Asia Pacific, Brookfield Asset Management Inc.

Yes, sure. Look, I would say, our focus at present is on those markets I mentioned. So China, Japan, Korea, and bearing in mind, they're all very large markets, and we've got a lot of room to grow ahead of us. So at this stage, I would say there are no current intentions to go into other markets. But if and when we feel comfortable and we've got the resources to allocate, it's the same things I mentioned earlier, which is we, obviously, want to look for countries that have good rule of law, good respect for capital, and they are large enough for us to be meaningful for us. And they have opportunities that fit or match well with our strengths. So those are the sort of things we look for.

In terms of building up, again, as I said, we take a very cautious approach we go into these countries. So we can sit in Australia or in North America and talk about Asia as if it's one place, but it's a lot of very diverse countries. They all have their own systems and approaches, and we take the cautious approach to learning all of that as we go into them. So we tend to go in, set up, have a mixture of existing tenured Brookfield people on the ground. I, myself, actually went to China and spent a number of years there as an example. Then, hiring a local team that we build into our culture and our approach to investing and then slowly build up our investment capabilities and start to get runs on the board. And so that's very much where we're at in China right now. And as hopefully, you heard, we've really got momentum behind us. We're partway there in Korea and they're building out. And Japan, we expect we're really going to start to move on that growth in the coming year or two.

Operator

Our next question comes from Robert Lee with KBW.

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

I'd like to come back to BPY for a bit. So the risk of stating the obvious, obviously, buying it in because you see a lot of value there that can be unlocked. That's not being appreciated. But as we think forward over the next 12 to 24 months, are there some things that we should be looking for that you feel like you can kind of unlock value fairly quickly. Once you get full control of BPY and kind of get it outside the public round that we can start seeing if you can maybe share what some of those things may be over the next 24 months.

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Yes. Rob, it's Nick. Listen, I think, what you're going to see over the next 12 to 24 months is, one, just the recovery in some of the areas of the business that were impacted by the shutdown and we expect that to be a fairly strong recovery, especially in retail with the rebound in spending. And I think that we've said in a private form maybe allows us the flexibility to do more with the portfolio around development, creating potentially new products for our clients and be more focused on value creation and maybe less focused

on that quarter-to-quarter earnings that a public company is focused on.

So a lot of that would have been plans that we may have had for the business, and we can maybe accelerate some of those plans. And I do expect that over the coming months, once we effect the transaction, close the transaction and look forward, then we can start to think about what that looks like and set out a plan for you a bit. I think it would be a lot of what we've done in the past, but maybe we can just accelerate some of those plans. And our view on the portfolio really hasn't changed to what we've stated in the past, but these are some very, very high-quality assets that should deliver strong value creation over the long term.

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

And maybe just a quick follow-up. I mean if I think back to Investor Day, nine months ago or so, one of the new business initiatives – you laid out several new business opportunities, initiatives over time. So one of them, I believe, is building a secondaries capability. And I think you've kind of hinted at maybe doing that organically. But could you update us on that and where that stands on the one or two of those businesses that have traded recently? So your thoughts there on kind of an organic build versus potentially acquiring something in the secondary space, which the space of things be growing as rapidly as rest of the industry, if not more so.

Bruce Flatt, CEO, Brookfield Asset Management

Yes, it's Bruce. Look, I'll just say that the secondary space, in particular, assisting mid- or smaller-size general partners, reorganize assets they have or deal with funds they have with clients is a very attractive area. It's possible that we do something outside, but we've decided to grow it organically. We've hired teams in real estate, and we now have funds we've raised initially for secondary investments and done a number of them. We're building out infrastructure, and we're going to turn to private equity next.

So we think we can easily do it ourselves. And the reason for that is, all we're doing is dealing with the same assets – types of assets that we deal with every day. So we have the knowledge, and our clients are looking for solutions and places to put money to work. So we think it's a highly additive business to us and easy for us to scale up. So we don't really need to buy a business to do it. But one should never say never, I guess.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein, Goldman, Sachs Group, Inc., Research Division - Lead Capital Markets Analyst

I wanted to go back to the fundraising dynamics that are maybe a little bit more near term. So Bruce, your comments sounded pretty bullish on the appetite from investors. You're seeing in the current flagship, obviously, where the next real estate fund has hit in the road this quarter, etc. So how are you guys feeling about \$100 billion as kind of the near-term target? How are you thinking about Brookfield's participation within that? I think 25% is something we used to sort of thinking about, but if there's enough substantial op demand as it sounds, could that percentage be lower?

And then maybe just a quick update on Oaktree. It sounds like they're actually quite far along in deployment of commitment, just kind of based on their deployment activity in the quarter. So just kind of let us – maybe give us a quick update on where they stand as a percentage of committed to deploy capital within the latest fund. And I guess, that will kind of dictate what the next fund could look like.

Bruce Flatt, CEO, Brookfield Asset Management

So I'll give you an answer to the first couple of things and then maybe Nick can talk about Oaktree. But look, I would say, we have every expectation of meeting all the targets we laid out nine months ago. The \$100 billion, it's possible it's greater than that. The fundraising environment is extremely constructive today because interest rates are very low. And people have learned that alternatives are a very good way to earn a decent return with low risk in their portfolio. So, I'd say we have no issues with any of that.

The second question was towards percentage of commitments and where we come in at. And I guess what I'd say is we've now started in our funds, and we've started years ago, but we're being more definitive with it when we raise funds as we're starting by doing absolute numbers into a fund. Because, as you know, as these funds get larger, when they go to \$20 million, \$30 billion – an absolute amount of \$2 billion or \$3 billion, it's a lot of money for us – and in every fund we do. Therefore, we're not really thinking of 25%. They're just absolute dollar amounts we put in. And our clients feel, obviously – that's a very large commitment from us. So it's possible going forward that the number goes down on a percentage basis, but it will always be a very absolute committed amount which is large.

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Yes. Maybe, Alex, I can just jump in on Oaktree. Listen, there are fundraising for fund 11 as you know, has been ongoing. I think in previous quarters, we disclosed they were up to \$13 billion. They're now up to \$14.7 billion following recent closes and they've not had their final close yet. That will happen in the coming months. We expect to increase that fund a bit more from there. And they are about 50% invested or committed in the fund today. So the deployment has been going very well for that fund. They're seeing lots of attractive opportunities, both in the public and private markets. So there continues to be strong momentum on the Oaktree side.

Alexander Blostein, Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst

Got it. That's great. A quick follow-up for you guys on the balance sheet. So – and that's really related to the unlisted investments you carry on balance sheet. I think it was a little bit over \$9 billion. Is it possible to disclose the embedded gain within those investments? I'm not sure if I missed it somewhere. And how are you thinking about the timing of those realizations?

Now I know it's difficult to pinpoint in the quarter, but should we be thinking of that kind of in a similar fashion the way you disclosed your carrying path kind of the vast majority of carry, can you talk about realizing that over the next kind of three years? So that's sort of a similar path for that – the embedded gains within the unlisted partnership balance on the balance sheet?

Nicholas Goodman, CFO, Brookfield Asset Management Inc.

Yes. So Alex, there are a couple of different concepts in there. The unlisted investments would cover things like our residential homebuilding business in North America, Brazil, which would be direct investments for us, it would be some direct real estate that we own. So a lot of it wouldn't be in funds. And some of them would be more strategic to Brookfield over the long term, so not necessarily things we'd monetize in the short term.

There are some unlisted things that show up there, like our commitment to the third BSREP fund. So that would be aligned to monetization, but it's kind of a mix. It is broken out later in the supplemental. We do provide a bit of a breakdown of our unlisted investments, but we can walk you through that. So I wouldn't think of that necessarily as things that will be disposed of in gains realized in the short term, but some of it will come in over time to your question. Some of them are core, what we've been doing recently. And that wouldn't include the listed investments and things like the listed affiliates, those would not be in those numbers, that would be completely different.

And as you know, in this quarter, the West Fraser shares, which was a very, very long-term investment that we've held. And it was, obviously, very attractive in the market following the transaction with West Fraser. It was a very attractive opportunity to monetize and bring capital into treasury and support what we're looking to do in the business, and the BEPC share has strategic value to BEPC as well. So some of these things are arguably opportunistic but also strategic. So it really depends on the nature of the investment.

Operator

(Operator Instructions) Our next question comes from Andrew Kuske with Credit Suisse.

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

I guess as we're approaching 2:00 a.m. in Sydney, I've got a question for Stewart. And it really is around your APAC business broadly. And it seems like the duration you've been in APAC you're maybe one transaction away from hitting a tipping point to accelerate new business and primarily places like the Japan and South Korea. If you could maybe just give some context on how you have the outlook on a near-term basis on the acceleration of activities there?

Stewart Upson, Managing Partner & Regional Head of Asia Pacific, Brookfield Asset Management Inc.

Sure. And look, I think, you've characterized that well. Again, we do enter these markets cautiously and make sure that we learn them well before we do accelerate. We are at that point in the sectors that we've got experience in China. And I would say China is a huge country. And so, we've been very careful in taking a very narrow approach to the sectors that we focus on. And – but obviously, we can go deep.

And so, now in those kind of Tier 1 Prime real estate markets, we are doing larger and larger transactions. And hopefully, in a very near term, we'll have another one coming through to build up that portfolio and similarly in renewable power. But at the same time, we are building out our investment team across infrastructure and private equity. And we expect in the next little while that we will start to invest in those business groups as well and further accelerate.

In Korea and Japan, similarly, we've done a number of real estate transactions of scale in Korea already, and we have great momentum. But we are right now building out our private equity and infrastructure teams. And as a result of that, we expect that we we're going to be able to capitalize on many opportunities as those markets start to transition a little bit where to date, you've had conglomerates that have sort of bought up everything in those markets, and now they're starting to retreat a little bit and focus back to their calls, and there are a lot of opportunities as a result in the market that we're looking to capitalize on. So we expect a lot of growth coming over the next few years in the market and a lot of exciting opportunities.

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

And then maybe just a follow-up on that. And probably close to your heart is if you got back to BBI and that deal, that clearly accelerated the group's knowledge on things like rail and ports. So do you see a collateral benefit of allocating capital in places, AsiaPac, that could actually enhance your activities globally by learning a certain area of expertise or just having more hands-on capital?

Stewart Upson, Managing Partner & Regional Head of Asia Pacific, Brookfield Asset Management Inc.

Yes, absolutely. Look, I think, one of the big advantages is just part of our broader approaches that we have global capital and the more places we have to deploy that capital, the more opportunistic we can be. And there are always markets that are in and out of favor. And I would say right now – when we first

entered China, as an example, it was a highly competitive market, and there were very aggressive domestic players and a number of foreigners sort of with interest in the market.

And to date, well, right now, that's kind of swung around a bit and with the deleveraging process locally in the market, there are a number of those previous buyers, local domestic buyers have become sellers. And some of the foreigners – with the various noise internationally, some of the foreigners have become more cautious as well. So that supply/demand dynamic there is really kind of swung in our favor, and we're seeing a lot of great opportunities. So I think that's kind of the bigger benefit to having more markets available to 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. Thank you, operator. And with that, we'll end the call. Thank you for joining us.

Operator

This concludes today's conference. Thank you for participating. You may now disconnect.