

Brookfield

TRANSCRIPT: Q3 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
- Josh Raffaelli, Managing Partner, Brookfield Technology Partners

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Brookfield Asset Management Third Quarter 2021 Conference Call and webcast. At this time all participant lines are in listen only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session, you'll need to press star then 1 on your telephone

Please be advised that today's conference may be recorded. If you require operator assistance during the call, please press star then zero.

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

Suzanne Fleming, Brookfield Asset Management Inc., Managing Partner

Thank you, operator, and good morning. Welcome to Brookfield's Third Quarter 2021 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer; Nick Goodman, our Chief Financial Officer; and Josh Raffaelli, who heads our growth strategy.

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, Josh will give an update on the growth strategy.

After our formal remarks, we'll turn the call over to the operator and take analyst questions. I'd like to remind you that in today's comments, including in responding to questions and in discussing new initiatives in our financial and operating performance, we may make forward-looking statements; including forward-looking statements within the meaning of applicable Canadian and U.S. securities laws.

These statements reflect predictions of future events and trends and do not relate to historic events. They're subject to known and unknown risks, and future events and results may differ materially from such statements. For further information on these risks and their potential impacts on our company, please see our filings with the securities regulators in Canada and the U.S. and the information available on our website.

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

Bruce Flatt, Brookfield Asset Management Inc. - CEO

Thank you, Suzanne, and welcome, everyone, on the call.

Our results for the quarter were excellent, with distributable earnings of \$1.2 billion, taking total earnings for the last 12 months to \$6.6 billion. Nick will talk about that later.

During the quarter, we also completed or advanced a number of strategic initiatives across the business. We monetized numerous mature investments, deployed capital into a number of new opportunities and continued with strong fundraising across the board. I would make an observation, which is that despite the size and scale of the business today, our growth potential seems greater than it has ever been. With our differentiated investment and operating skill set, we have built five market-leading businesses that are positioned around global investment themes with secular tailwinds to grow. This gives us conviction in doubling the size of these businesses over the next five years.

On top of that, we are adding new growth strategies for the future, insurance solutions, technology transition and secondaries, and we'll touch on a number of these today. The low interest rate environment will continue to push allocations of institutions towards alternatives over time, which is positive for our growth trajectory but also allows us to attract new clients by broadening our product offerings across each of our businesses.

Turning to the market environment for just a moment, with almost all major markets lifting restrictions, we have seen a continued reopening of the global economy. This has meant strong GDP growth, improved labor markets and a constructive environment for capital markets activity. Pent-up demand continues to be released but with disruptions across most global logistics, it has been challenging to match unleashed demand with supply, creating increases in prices for at least the time being.

We do expect this to stabilize in 2022. Importantly, despite this, the 10-year U.S. treasury note is still hovering around the mid-1% range, and we expect rates will remain low-ish for longer. This backdrop is a very positive environment for our business, given the nature of real assets and the businesses that we own, which generally benefit from economic growth and have revenues that adjust by contract or with inflation.

As Nick will discuss further, investment performance has been very strong, and we continue to be active on the monetization front, generating \$42 billion in proceeds over the last 12 months. This has allowed us to surpass the preferred hurdle in our early vintage funds, and we now have at least one flagship fund across each of our businesses realizing carried interest.

All monetizations within these funds going forward will drive further carried interest, all of which has been accumulating for years. Valuations in many areas are high but I would note for you that many are not. This includes numerous non-U.S. markets. Just give you an example, India, China, South America as well as some sectors like midstream pipeline.

In addition, we are able to leverage our deep operating capabilities, our flexible capital, our global scale, to find opportunities to deploy capital for value even in growth sectors.

Some examples of the investments recently made include our closing of the Inter Pipeline transaction in our infrastructure business and the agreement to acquire a stake in FirstEnergy transmission, both within our various infrastructure funds.

A \$6 billion deal to acquire Scientific Games in our private equity business, and a number of real estate renewable power and credit investments. Over the last 12 months, we have invested or committed over \$60 billion of capital. On the other side, fundraising activities have been extremely strong from both a flagship perspective, but as important with respect to our new product offerings.

Since the end of last quarter, as noted in our release, we raised \$34 billion of capital across our various flagship funds, but also complementary strategies. We currently have four out of five flagships in the market and are on track to reach our \$100 billion target for this round of flagship fundraising and maybe even surpass it.

Our flagship infrastructure fund is also expected to launch fundraising early next year. Efforts in the quarter include raising \$9 billion for the flagship real estate fund, \$7 billion for the founder's close of the transition fund, and demand remains strong for these offerings, and we expect to close additional amounts of capital in the coming months.

We have been advancing our new strategies and product offerings, all while continuing to scale our existing businesses. Our insurance solutions business, which we spoke at our Investor Day is progressing well and growing quickly. The business has recently closed two large block insurance deals for a total of \$12 billion of long-dated annuities, and we are now redeploying this capital across a variety of investment strategies, including a number of our Oaktree credit strategies and our Brookfield credit funds.

The addition of American National group to the business, which is expected to close in the first half of '22 will provide us with an insurance platform from which to grow our presence in the U.S. market. We completed the transition to become the adviser of Brookfield REIT, a public non-listed real estate investment trust last week, which will help us enhance our footprint across the private wealth channel and should attract new investors in the private wealth space.

This product is an income-oriented investment strategy and will invest in high-quality stabilized assets, those that we have specialized in for many decades. With three newly contributed investment assets from Brookfield to the portfolio, the total value of Brookfield REIT has more than doubled since our purchase to \$1 billion, and we are just getting started.

We have also been active with our growth technology strategy, and we held a final close for our second fund for over \$500 million this week.

Josh Raffaelli, Managing Partner and Head of Growth Strategy, as Suzanne mentioned, is here with us today, and he's going to talk about that. As usual, we have a lot on the go. Thank you all for your support, and I'll hand it over to Nick now.

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Thank you, Bruce, and good morning, everyone. As Bruce mentioned, our financial performance in the quarter was very strong. We recorded \$1.2 billion or \$0.77 a share of distributable earnings or DE; operating FFO of \$934 million; and net income of \$2.7 billion. The total DE generated over the last 12 months is \$6.6 billion or \$4.23 a share, and that is double the prior 12-month period. The key drivers of the performance are threefold: one, growth in fee-related earnings supported by successful fundraising; two, carried interest realization, underpinned by strong investment performance and monetization activity; and three, stable and growing cash returns on our principal investments.

So starting with fee-related earnings. We currently have four of our five flagship funds in active fundraising and have a further 25 funds in adjacent strategies also currently in the market. Inflows since the end of the second quarter totaled \$34 billion, which includes a strong first close for our fourth flagship real estate fund, founder's close for our Global Transition Fund; and inflows in our real estate secondary strategy, insurance solutions business, and across other real estate, infrastructure, private equity and credit funds.

Our fee-bearing capital increased by \$16 billion to \$341 billion at quarter-end, and that's an increase of \$52 billion over the last 12 months. This has led to strong growth in fee-related earnings, which were \$451 million for the 3-month period and totaled \$1.8 billion over the last 12 months, an increase of 25% from the prior period. And we expect our fee earnings to continue to grow in the fourth quarter as we raise more capital and receive the incremental fee benefit from funds raised during and subsequent to the third quarter.

In addition to the current management fee base, we have \$35 billion of additional committed capital that will become fee-bearing once invested, translating to approximately \$350 million of incremental annual fee revenues. We maintain our conviction that this next series of flagship fundraising, combined with growth in complementary products, will lead to a step change in our asset management earnings and allow us to double the earnings power of our franchise over the next five years.

Moving on to investment performance and monetization activity. We continue to execute on a number of capital recycling initiatives. During the quarter, we realized over \$8 billion of proceeds, returning \$7 billion to our clients. On the back of this realization activity, we generated \$223 million of disposition gains from principal investments and \$304 million of realized carried interest.

Over the last 12 months, we have now realized approximately \$1.8 billion of gross carried interest compared to \$482 million in the prior year period. Our investments performed very well across all our managed funds. We generated around \$1 billion of unrealized carried interest in the quarter, increasing the total accumulated carried interest by 16% to \$6.9 billion.

We expect to recognize this into income over time as we continue to execute on asset sales. And lastly, our principal investments continued to write strong and steady contributions to our distributable earnings. This quarter, distributions from our investments were \$572 million, up 19% from the prior year, and the increase was driven primarily by the privatization of BPY as well as higher distributions from our public infrastructure and renewable vehicles.

Funds from operations or FFO, before realizations, increased 10% since the prior quarter. And the increase was largely driven by the continued growth in our asset management franchise as well as a higher contribution from our real estate business due to the privatization of BPY, and including realizations, FFO grew by 36% to \$1.4 billion.

Our liquidity continues to remain very strong. In addition to \$66 billion of uncalled fund commitments, we have approximately \$14 billion of core liquidity, including close to \$5 billion directly at the BAM level. All of this adds to a total of \$80 billion of deployable capital.

During the quarter, we continued to advance our green financing initiatives by issuing \$600 million of green bonds due in 2032 and we also published our inaugural green bond and preferred securities framework, which is available on our website.

The proceeds from the green bonds will be allocated to eligible green investments, as outlined by our framework.

Our balance sheet remains conservatively capitalized with 94% of our debt having no recourse to the corporation and a debt-to-market capitalization ratio of 11%. With \$5 billion of core liquidity, \$65 billion of investments and \$3.6 billion of annual distributable earnings before realizations, we retain significant core financial strength to pursue strategic growth or to buy back shares.

Before I hand the call over to Josh, I am pleased to confirm that our Board of Directors has declared a \$0.13 per share dividend payable at the end of December. Josh?

Josh Raffaelli, Brookfield Asset Management Inc. – Managing Partner, Brookfield Technology

Great. And thank you, Nick, and good morning, everyone. I am pleased to be here with you today to provide an update on our technology and growth investing initiative that we've been patiently building since 2016. Over these last five years, it has developed into a meaningful business for Brookfield that we will continue to scale over time; having deployed over \$1 billion into a portfolio of technology and growth stage companies that are building solutions to transform mission-critical industries where Brookfield has decades of experience as an owner and operator.

Real estate, infrastructure, power, and the many sectors where our private equity and credit businesses operate, give us a unique opportunity to be advantaged by these changes as both adopter and investor. As the backdrop to Brookfield Growth Partners, enterprises everywhere are increasingly turning to innovation as a means to increase productivity, grow profitability and build competitive differentiation.

Brookfield is no exception, and as highlighted last month during our Investor Day, technology adoption and investing has increasingly come to focus across all of our business lines. These trends were accelerated during the pandemic, when digital solutions went from a nice-to-have to a must-have, and it became the core of the economy's resiliency and accelerating recovery.

Many of our operating companies experienced exponential growth and corresponding enterprise value enhancement. What was most exciting was that this was a catalyst moment for the intersection of real assets and innovation. We believe that this growing momentum will create an immense investment opportunity for growth and technology investors and an exciting opportunity for investment.

With the accelerating macro, Brookfield Growth Partners was built on two guiding principles. First, our long institutional history of owning assets and operating businesses creates a unique vantage point of identifying and accessing world-class technology companies.

We visually understand the pain points technology businesses operating in our core sectors are looking to solve and therefore, understand which opportunities can help resolve these.

Second, when we provide capital to these companies and couple them with access to Brookfield's ecosystem as a means of value creation, it creates a structural advantage that's lacking in generalist growth equity investing.

We create enterprise value in the companies we partner with as customer, channel, or validation capital. The enterprise value enhancement improves our returns and significantly de-risks our investments. These

foundational principles have created a great start for our business, channeling our many decades of experience and a thoughtful approach to investing into the technology enablement on the built environment.

The enterprise value enhancement that Brookfield provides touches every part of the investment process: sourcing, underwriting, portfolio management and exit.

In sourcing, we leverage Brookfield's group of 150,000 operating employees to discern scaled and global investment themes that touch the \$650 billion of assets and the hundreds of operating companies that we control. Those thematic statements turn into outbound and proactive approach to proprietary investment processes in which we partner with our Brookfield operating employees, who bring their industry expertise alongside our diligence with the lens of being an actual user.

As an underwriter, we have something no other growth investors have: we can get our operating companies within Brookfield to pilot technologies and get real and undiluted feedback to mitigate technology risk and enhance execution capabilities. This significantly differentiates our capital as customer and advocate and ensures we are able to price risk.

As a manager and steward of capital for our LPs, we can steer product development and organic growth strategies and source inorganic acquisitions to maximize top line performance. Below the top line, we are able to leverage best practices from Brookfield's deep operational bench strength that use the same value creation plan we pride ourselves on as an asset manager to help the companies we partner with grow and scale. The \$1 billion of investment across multiple funds holds interest in privately held growth stage software and enterprise technology companies that are growing revenues at 30%+ on average year-on-year.

In many cases, our early growth companies grow well in excess of 100% year-over-year, where our core growth companies are those closer to a monetization event and stabilize cash flows grow 30% to 50%. We focus on companies that have been significantly de-risked, meaning that they have proven technologies, are market leaders with durable competitive moats, obtained, contracted or heavily recurring revenue streams, and most importantly, are generating very attractive unit economics that are repeatable at scale.

Lastly and most importantly, we believe that our ability to leverage our operating expertise and embedded customer base, further creates downside protections that are critical for our franchise to succeed. While it's still early innings, we've had two full realizations, half of our portfolio has had significant valuation gains from third parties, and the track record is performing well ahead of plan, in line with Brookfield's compound growth rate.

Behind the \$1 billion of investments, and with a dedicated team, we have viewed over \$50 billion of actionable proprietary opportunities made up of thousands of businesses that we monitor constantly. Our diligent and pragmatic business building has created a canvas for a much greater scale, both within the growth vertical, but also in more mature forms of investing.

Our investors should expect to hear more about our technology-related investing activities over the coming years in many of our business units and in particular, within our private equity group. We will continue to build a durable and differentiated business and technology investing that finds value across all parts of the company's life cycle as a scaled partner.

For today's call, we thought it would be helpful to highlight two investments representative of our

approach to the sectors and asset class. First is a business we invested in 2018 called Latch, a public company that's a maker of smart lock and digital access control software for residential applications in the United States. This investment was the result of many years of close work with our multifamily operating employees.

We're looking for ways in which technology could enhance net operating income, either as an amenity driver, driving greater revenue, or as an efficiency driver to reduce costs. Smart locks serve both. They are highly visible and desired for tenants, and also solve some significant management challenges for problems such as managing resident access, offering remote showings, and package and delivery management.

These needs led our group to seek technology-first vendors that can design both hardware and software to create new means of access. Latch stood out amongst a long list of legacy providers as a disruptive start-up quickly gaining market share in the multifamily sector. We combined our commercial and capital efforts to lead the company's \$50 million growth round in 2018, joining the Board and commensally agreeing to purchase several thousand Latch units for our multifamily portfolio. This created a step function in growth and through our ability to adopt technology in our own assets, meaning the Brookfield's involvement in earlier-stage business, can create significant competitive advantages long term. And that's exactly what happened.

And through the course of the following three years, the company's annual bookings grew tenfold, which drove significant sales growth and eventual public listing earlier this year. The equity valuation of Latch during this time increased several times from our initial entry price, creating a strong return on our investment and further solidified our thesis the Brookfield ecosystem can accelerate the trajectory of growth-stage technology companies and drive returns for investors.

Another example is our recent investment with the residential solar market through our partnership with a company called GoodLeap, the largest digital first solar loan originator in the United States.

Across our renewables, properties, and infrastructure businesses, we have seen firsthand the growth in solar adoption. Residential solar is a particular interest and continues to be a fast-growing end market that we at Brookfield have been involved with for many years. GoodLeap created a software ecosystem for homeowners to access low-cost financing, planning, and purchasing and installing solar. 8,000 contractors are standardized on GoodLeap's technology for proprietary origination. GoodLeap also created software for working with the capital markets at scale.

Today, the business has grown to the number one financing partner in the United States of solar and is quickly building share in storage and other forms of energy efficiency. The financial profile is just as exciting, growing well at north of 50%, while being tremendously cash flow positive. This has led to an already significant multiple on our invested capital in under one year since investing.

These two examples are just some of many in our portfolio today that represent our unique approach to growth equity. We have designed this program by leveraging our core values of staying disciplined, patient, and constantly seeking opportunities where we are a differentiated, value-added capital partner.

And because of our scaled balance sheet and \$650 billion of assets around the world, we'll be able to access some of the highest quality technology companies in the world, and we expect that this will continue at a larger scale in the future. This access is leading to a very strong start for our growth equity business. Thank you all for your time, and I'll turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

If you would like to ask a question at this time, please press the star or press the number one key on your telephone. To withdraw your question, press the # key. Please standby while we complete the Q&A roster. Our first question comes from Alex Blostein with Goldman Sachs.

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

So maybe taking a little bit of a step back, lots of moving pieces in the quarter with the reporting changes and whatnot. But I guess when I think about third-party capital, between privatization of BPY and the insurance build out, there are a lot of entities that BAM now essentially owns 100% of on balance sheet, but that are on the reporting convention pay a fee to BAM as well.

So, I think it would be helpful just to say out of the \$341 billion of fee-bearing capital that you guys report, how much of that fee bearing is ultimately related to entities that BAM owns mostly on balance sheet? So call it, 90+% ownership? Just to kind of help us set the stage a little bit.

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Alex, insurance is just getting started. We've been through this in the past, and we do footnote it in our materials. It's around \$50 billion that comes from those entities. But I think we've talked about distributable earnings being the focus. The focus is really on the free cash flow generation from our businesses and the cash that we are earning and that is generating a really strong return on capital. And so, it's distributable earnings. I mean, if the cash is paid off as distributions or management fees, it's still cash that we are earning on a perpetual capital basis, very high-quality cash flow and it's reflective of market rates for those management fees. So, the answer is \$50 billion, but I'm not sure we think of it in a differentiated manner.

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

Got it, thanks. Some of the strategic initiative's you guys highlighted, maybe we can start with Brookfield REIT launch here in the fourth quarter. Can you help us, I guess, with the NAV, and what did you ultimately move into that vehicle from Oaktree, talk to us a little bit about your distribution plans? Sort of what are the platforms that you're on now? Kind of what are you doing with the wirehouses? Are you on any of the wirehouse platforms today? And if you kind of think about the opportunity set for Brookfield REIT over the next 6 to 12 months, what are you guys shooting for in terms of the monthly inflow opportunity set?

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Yes, Alex, I can start on that one. So, we transferred about \$1 billion of assets into the vehicle at the start, so that's the size of the entity today. And really just taking a step back, we've talked about combining our wealth solutions platform that was previously in three different spots in the business, and we put it together with Oaktree to create Brookfield Oaktree Wealth Solutions, that should have tremendous reach and as of the 60 professionals today and is working with all of the major banks with wealth retail networks with various products. And so, we think this will provide tremendous leverage to our business and tremendous scale from the retail channel over time; and we're developing and advancing products specifically for that channel, the non-traded REIT being one of them.

And I think if you just think about this specifically, we've transferred it to Brookfield, where, as you know, and we are one of the largest real estate managers and investors in the world and the scale and the scope

of our business is really unrivaled. And if you think about everything else that we do in our business around real estate, the scale and potential of the offering that we have is really tremendous, and we think it will really appeal to investors and to banks to get it onto the platform. And we have really, really high hopes.

How much that will be, will tell. But we know there's significant capital in the retail channel, looking for a product like this. And really, we have something that's unrivaled in the space.

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

Great, thanks Nick. And then if I could just squeeze in one more around the capital return dynamic. I think over the last couple of quarters, we talked about the opportunity you see for share repurchases given the fact that you guys are generating a lot more cash flow in the business, which seems to be certainly only increasing from here given the outlook for carried interest and things like that.

So, when we look at the fully diluted share count, obviously, there are some deals that drove that higher over the last few quarters. The path from here, should we expect you guys to be a lot more aggressive to actually drive the total share count down over the next 12, 24 months? Or is the goal to maybe be a little more gradual and keep it flattish?

Nicholas Goodman, *Brookfield Asset Management Inc. - CFO*

Yes. I mean listen, it's dependent. It's capital allocation opportunities. Right now, we have really, really good opportunities to reinvest that capital back into the business, as we mentioned, things like buying an insurance platform in the U.S. But you're right, as carry continues to pick up and the business is growing, the free cash flow is just compounding and growing every single year, and it will grow again from here. So, there will be excess cash flow, and the plan is to buy back shares.

And I think we've said in the past, we do plan, over time, to retire the shares that were issued recently for recent acquisitions. And so, whether it's one, two or in the next three to five years, that is the intention.

Operator

Our next question comes from Ken Worthington with JPMorgan.

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

It looks like the fundraising and the perpetual funds stepped up this quarter and it could suggest that something has changed. Could the marketing of the flagship products be driving more interest in these perpetual funds rather than the other option, which would be to crowd out those investments?

And do you have any insights on the stronger level of these non-flagship fundraising this quarter? And maybe how the emergence from COVID-related travel restrictions could be influencing these fund sales?

Nicholas Goodman, *Brookfield Asset Management Inc. - CFO*

Yes. Thanks, Ken. No, it's a great question. And I actually believe that what we are doing with the flagships and the complementary strategies, it is tremendously additive, highly, highly additive to the franchise because we're in front of our clients talking to them with multiple products, and they have different pools of capital with different risk appetite, different requirement for value versus yield and growth.

And so I think it's very, very additive that we can have a number of active conversations with our peers. And I think we launched some of our perpetual vehicles over the last few years, and they've been building scale and now they are really, really delivering, both in terms of deal flow and conversations around fundraising. And they are able to attract new clients to the business and then cross-sell into even our

flagship. So, I think that it's all very additive.

And in the quarter, big contributors would have been our infrastructure perpetual vehicle, our public vehicle, and infrastructure-issued securities, which were very well subscribed. And so that was a major contributor into the quarter, but just generally, and there is tremendous momentum now around this area for us.

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

Okay. And then I think you mentioned at least one flagship fund in each category is in carry. Of the, call it, \$6.9 billion of accrued carry, how much is in funds that are ready to take cash carry at this point?

Nicholas Goodman, Brookfield Asset Management Inc. – CFO

We're building towards it. I think in our material, we do talk about what could be realized over the next few years, and I think it was \$2 billion to \$3 billion over the next three to five years, but that's really based on pace of sales and asset sales. And in the market that we're in, some of that could be accelerated. But it's our early vintage funds, our first real estate fund, our first infrastructure fund and our fourth, which was our biggest – our first large-scale private equity fund are still monetizing assets and still realizing carry.

And then those next vintage funds, as we monetize, we'll move towards that preferred return and be able to start realizing. So, I think we lay it out of what it will be in the next five years, but I'd say that we're tracking really well against those numbers.

Operator

Our next question comes from Sohrab Movahedi with BMO.

Sohrab Movahedi, BMO Capital Markets Equity Research - Analyst

Two questions. First one on private credit. I think you've highlighted in the shareholder letter that it is a source of growth, presumably at the expense of commercial banks and the like. I guess if you could just provide some quantification as to what sort of growth you're expecting from that over the next, call it, five years? And what will that do to the overall dynamics of the fee rate and fee margins and the like at the broader Brookfield level? So that's question number one.

And then I'll have a second one around stagflation, please.

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Sohrab, can you state the question again?

Sohrab Movahedi, BMO Capital Markets Equity Research - Analyst

Yes, I just wanted to get a bit more maybe color around the private credit opportunity that you've highlighted in the shareholder letter, just to kind of get a bit of a quantification around it over the next five years and what sort of implications will that have to your broader I'll call it, kind of standardized ratios that we look at. Whether it's the, call it, margins and fee-related margins and the like?

Bruce Flatt, Brookfield Asset Management Inc. - CEO

I got it. So first, I'd say on the private credit side, I don't think it's taking anything from the banks. What's happening globally is that Institutional clients used to have large sums of money invested into fixed income instruments. And these weren't competing with the banks, they were buying government securities, and they earned 4% or 5%, owning a government security or 6% or 8% historically. Today, they can't put that money into government securities and earn a reasonable return. So, the private credit is

widening out. So, banks still are doing what they do and participate in the business that they do.

But what's happening is the amount of money coming into the sector that needs to be deployed is dramatically increasing. And some of that may go to products in the liquid markets issued by the banks. But a lot of it is in the private market, and it's just finding opportunities to put money to work privately that we're doing for these institutions. And so it's really supplanting fixed income from government securities in their portfolios. I think the second part of your question is just to margins and what does it do. And of course, if you're investing at lower returns, you can't charge as much to your clients. And therefore -- and I wouldn't think of it as -- the margins we have is an amalgam of a whole bunch of things, some highly profitable things that we do, which pay us very, very high margins, but we earn a lot for our clients to do that. And then some things that pay us small amounts because -- or lower amounts because the returns for them are less.

And so, I'd say our margins overall will be lower if we drive more into credit. Having said that, we don't look at it that way. It's just an amalgam of highly profitable businesses each on their own.

Sohrab Movahedi, BMO Capital Markets Equity Research - Analyst

If I could just have a quick follow-up on that. So just on the private credit, you wouldn't broadly qualify this as regulatory arbitrage that governs the banks or maybe excludes the banks from doing certain things? You view this as just private credit that you have access to as, I guess, as a yield play, but not so much on a regulatory arbitrage? Is that the right way to think about it?

Bruce Flatt, Brookfield Asset Management Inc. - CEO

Yes. And I would just say, we have the ability to put money work in different places around our businesses, which is just different. And a lot of our money is mezzanine money as opposed to first lien money. And we look at it, it's investing seniors to the equity we'd otherwise buy. So, a lot of it is, I'll call it, in a lower than first lien, which is mostly what the banks are doing.

Sohrab Movahedi, BMO Capital Markets Equity Research – Analyst

Okay. And I had a second question just around the topic of stagflation. It's getting a little bit more airtime maybe. And I just wanted to get your thoughts, maybe, Bruce, if you could just talk out loud for us what – how you, as a management team, think about the topic of stagflation? If it's viewed as a tail risk event? And whether or not there's any actions you could take in advance to inoculate I guess, some of the fee-related earnings growth expected of you that you have?

Bruce Flatt, Brookfield Asset Management Inc. – CEO

Look, we're not experts in macro finance. But I'll just tell you what our thinking is. And essentially, it is that in the things that we do, which are real assets, and businesses around real assets and the type of things we do, essentially produce growing streams of cash flow over long periods of time. You can debate each business or type, but that's essentially what they do.

And those type of businesses are really, really good in a low-interest rate environment. And when there's some inflation, that's even better for the businesses because it means by contracts going up or inflation helps the contracts go up a little bit if they're not strictly contractual.

So I'd say just generally, this environment is a highly positive environment for our businesses.

Now, the only thing that could happen is that you don't have any growth and then you have inflation, and

that's generally bad for countries' GDP or for countries. And I just don't think that's going to happen. It will happen in some countries of the world, there's no doubt. But in the major – let's call it – I think you're talking mostly about the United States. Look, everyone worries about the thing of the day that everyone is commenting on, and there's no doubt, prices are higher. And there's no doubt that there are issues of supply chain, but a lot of this is caused by the fact that we shut down the economy for 12 months.

And to restart the economy, it takes a lot of work, and we can just see it in our businesses. It just takes time to get people back to the manufacturing facilities. It takes time to hire people. It takes time to get logistics properly back into place. And once that occurs, I think you're going to see all of this settled down. It just takes time.

Operator

Our next question comes from Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne, TD Securities Equity Research - Analyst

Bruce, we've had some questions from investors on recent developments in the real estate market in China. So, maybe you could give your perspective on what's going on there, and what are the outcome may be opportunities for Brookfield over time?

Bruce Flatt, Brookfield Asset Management Inc. - CEO

Yes. So look, our real estate business in China is small relative to the global business we have in real estate, but I can tell you by -- just, I guess, evidence of our business there is that people are still renting space. People are still buying goods and things are pretty good in the market in general. I would say what gets the headlines is that Chinese real estate has an issue. But really, what it is, it's the residential developers that were building condos had significant amounts of leverage in the companies, and that is unwinding itself given what's going on in the country.

So, they say real estate, but really what the focus is on is the residential condominium developers in all the types of cities, Tier 1, 2, 3 in China. So, I think as that unwinds, there's less capital and what's going -- given what's going on in China, there's less capital in the country.

And to your second part of the question, which is does that lead to opportunity? It has, it will, and I think continuously -- continuing, there will be more opportunity in China at more of a value basis than you've seen for many, many years.

Cherilyn Radbourne TD Securities Equity Research - Analyst

Great. That's helpful. Second one is for Nick. In terms of the \$35 billion of committed capital that will generate fees once it's deployed, can you remind us which pools of fee-bearing capital generate fees on committed capital versus fees on deployment? And should we assume that, that \$35 billion gets deployed relatively evenly over the next three years? Or is there a reason that the cadence might be different than that?

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Yes. Sure, Cherilyn. Thanks. So, our flagship funds across real estate, infrastructure, transition, private equity, earn fees on committed capital. Our flagship opportunities fund in credit, is fees on invested. So that's a large component, that's a large fund. And so, as that capital, it's highly committed right now, but not -- it's a lower level of actually invested or deployed. So as that gets deployed, that would increase fee-bearing capital fairly in the short order, given the level that's actually committed to date. And the rest is just across sort of our perpetual long-dated offerings and other credit products that will just gradually get

deployed over time.

So, it's probably not too long. And then we've got some flagship funds that end their investment period, and they have some capital set aside for follow-on investments that will get deployed over the next five years. So, there's probably some front loading to it and some will be evenly over the next few years.

Operator

Our next question comes from Bill Katz with Citigroup.

William Katz, Citigroup Inc., MD & Global Head of Diversified Financials Sector

Just on the fundraising. Your commentary that you had sort of \$30-some-odd billion of sales since the second quarter. So, give you had about \$20 billion in your disclosure, I'm presuming some of that spilled into the fourth quarter. I'm wondering if you could maybe talk to where you're seeing that growth, and then if you could tie it to your commentary that you think you could exceed \$100 billion in this flagship funds, where that upside might center in?

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Yes. Yes, Bill, that's right. So, I think it's a \$24 billion in the quarter, \$10 billion has happened subsequent to quarter end before release. And I'd say that right now, the fundraising is strong across the spectrum, and we really laid that out, as Bruce said, the amount of capital that is seeking to be invested into alternatives across the risk spectrum, whether it's our opportunistic all the way through to our core and then into our debt funds, the appetite is just incredibly strong.

And so I think if you look at the flagship funds, which is what the \$100 billion is focused on, Oaktree is done now at \$15.9 billion for Opps (Opportunistic Credit Fund). That was very successful. And I've seen that we've had a first and founder's close for real estate and transition, respectively. And the appetite is really well. I think that speaks to the flows of capital, but it also speaks to the product offering and the franchise and investment track record and opportunities that we present.

And for a first-time fund in renewables and transition investing, again, it talks to the really, really unique proposition that we have in that space, and the momentum around that space and the product that we can offer to our clients to help them with their ambitions around net zero is really unrivaled. So, I think it's just strong across the board.

William Katz Citigroup Inc. - MD & Global Head of Diversified Financials Sector

Okay. And just my follow-up is a bit of a two part, so I apologize. First, I appreciate all the extra disclosure. Is there a way to think about the segment accounting by the major bucket real estate, credit, private equity, et cetera?

You're giving revenues but wanted to try to see if I could tie it back to the FRE margin opportunity as those platforms scale. And then separately, and I'm sorry to go over this one again, but can you unpack the sequential change of BPY internalizing it? And sort of what came out of the invested capital side? And what sort of came through on the FRE side? Just trying to understand the sequential changes in those lines.

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

On the breakdown by fees, yes, over time, maybe we'll look to introduce the cost and give you margins by business. But the scale opportunity is really relative to the size of the business as they scale up, you should see that operational leverage come through in the numbers. But over time, we can help -- break

that out for you. On your question around capital, I think the fees is consistent with what we laid out, the BPY business itself is paying fees on its core and transitional development assets, and that's a basis points on NAV fee rate consistent with what we'd see for our -- more like our perpetual private real estate funds, and then their investments into the funds would be earning the fees the offset is went away. The growth is no different, but just the offset doesn't exist anymore and that capital flows through the private fund side or the fees flows the private fund side.

Operator

Our next question comes from Mario Saric with Scotiabank.

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

It might have been five or seven years ago, that you highlighted at Investor Day or AGM - I can't remember which one it was - that infrastructure could be Brookfield's largest vertical which in 10 years, indeed, has seen material growth. You provided some five-year growth forecast at your Investor Day, talking about recycling capital out of real estate, in particular.

But if we look out over the next 10 to 15 years, and keeping in mind some of the new growth verticals that you've discussed, how do you think about that answer today relative to five, seven years ago?

Bruce Flatt, Brookfield Asset Management Inc. – CEO

I don't know. Here's what I would say. Real estate is going to continue to grow, but it's a vast business today. So, it just can't – it can't quadruple in size, but it can continue to grow. Infrastructure will get bigger and bigger. Renewables is growing and transition are growing fast, but there – it's a limited – it's one business, it's not 10 businesses, like each of those other ones have.

Private equity will be getting bigger. Insurance, if interest rates stay low, our insurance solutions business could get very large in size of it in terms of size of AUM. And I think the wild card here is how successful we are in transitioning the business with what Josh was talking about, being able to affect our investing into later-stage technology businesses in our private equity area. And I think that could become large because just in the last five years, that's become a business for buyouts, and it will increasingly become that as opposed to just a venture and growth business. It could become very significant.

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

Great. And I guess my second question just relates to the capital intensity on the balance sheet. I think with more of a focus on DE, the cash flow from perpetual affiliates was 58% of the DE before realization this quarter. You've clearly laid out the strategic benefits of the perpetual capital on the balance sheet in the past and the importance of the partnerships. That being said, when you look out over time, are there any more macro factors, whether it's valuation, interest rates and so on? Would you reconsider what you think to be the optimal capital intensity on the balance sheet, given the expectation that fee-related earnings can grow at 20% plus CAGR?

Bruce Flatt, Brookfield Asset Management Inc. - CEO

Look, and I would just say -- and we -- as all of -- everybody on the line that's interested in Brookfield would observe, the fastest-growing business we have for the past 20 years and probably the next 20 years, has been our investment management business. There's no doubt it grows at a spectacular rate, like others that are out there. In fact, ours probably grows faster. And the reason it grows faster is we have access to capital that virtually nobody else has access to.

It differentiates our strategy for our clients. It differentiates our ability to make money for them. And

while on the face of it, it looks like it earns a lower return, it is the reason our clients come to us and the reason why we can earn the returns that are shown in the shareholder letter that we have for our clients. And I'd say it's just -- so I guess our view is, yes, it does earn a lower return, but our business is special because of it. And in the fullness of time, it doesn't matter. Whether -- it's still earned 16% the other one earns a lot more, but on balance, it contributes very significantly to us.

So that's not to say that over time, we won't take capital off and use it to buy back shares, we will. But having a differentiated offering to be able to make us different than many others is a special thing that we have, and we're not going to give that up ever.

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

Okay. Makes sense. And if I may, just one really quick other one on the corporate liquidity, Nick, that you highlighted, \$5.2 billion at quarter end. There's been a lot of activity recently. Where would that stand roughly today?

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

It's probably consistent, Mario. There's inflows and some outflows, but it's probably consistent on what you had have seen at the end of the quarter.

Operator

Our next question comes from Robert Lee with KBW.

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

I am just curious, maybe focusing on the secondaries business and maybe a little bit on direct lending. But you've highlighted both of them in the letter as being opportunities and places for growth. I mean if we look at the secondaries business, I mean, you've raised some money for real estate secondaries. But in the marketplace, you've seen a fair number of actually large properties, secondaries managers trade who are arguably already at scale.

So, can you talk about kind of your interest or willingness to kind of accelerate growth of at least your secondaries initiatives through M&A? And then I guess on direct lending, obviously, Oaktree has that capability but again, in that kind of specific sleeve of private credit, there's many larger competitors. I mean do you see a need -- again, do you see a need to accelerate your scale or size in the direct lending business through M&A as a possible avenue? That's my question.

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Thanks, Rob. Yes, listen, they are good questions. I think the secondaries businesses that you're seeing trading in the market is maybe slightly different to what we're looking to do. And I think if we look at secondaries and direct lending, our intentions right now are to build these organically because we see secondaries as an extension of what we are already doing in our business, but it's just a new product that we can offer our clients and an extension of our existing capabilities, as opposed to building a dedicated business. And I think we've already seen very, very early success in that regard in real estate before we even listed or launched the first fund. But our brand, our reputation, and the view of having us as a partner in more of the GP-led secondary space, we think is differentiated and really leans on our business and is not something that we need to acquire externally.

So, the intention right now is to build that organically. And I would draw the exact same argument on the Oaktree side that, while it may not be at the scale of others, we have all the expertise internally. And

therefore, we believe, with the relationships and the reputation that we have in that credit space that as we turn our minds to it, we can scale that organically.

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

Great. And then maybe a follow-up just on -- this is -- it relates to Oaktree. So, I'm just curious, I mean their flagship fund, you mentioned is kind of getting close to the finish, ending its fundraising, but it's also 70% invested.

And since typically, you start raising the next fund when they get to like 75% or so, should we expect that there actually could be another fund kind of quickly coming to market? Or do they have recycling capacity in that fund? So that's still going to be maybe a couple of years before you start the next flagship fund at Oaktree?

And then I guess when we get to '22, that's the first opportunity to buy in some additional piece of Oaktree, I believe, if I'm not mistaken. So, can you just remind us when that could be and the potential terms around that?

Nicholas Goodman, Brookfield Asset Management Inc. - CFO

Yes, sure. So, on the first part -- Rob, on the first part, I'm just trying to -- sorry, I'm just trying to remember the question. Yes, your second part of the question answered it, and we do have recycling capacity in that fund. So, while they're at 70% today, it's a bit different to our flagship funds. So, it won't be sort of immediate fundraising in the next few months, but it may not also be as far as two years out, it could be sooner than that, but that depends on the recycling and the investment nature, but they do have that capacity.

On the Oaktree liquidity mechanic, just to remind you, it's a put option that they have, not a call option. And the kind of the guardrails around are I think when we did this, it was 13.5x three-year trailing fee revenue and 6.75x the carry, that's the mechanic around it. And there are limits around how much can be monetized in any one year, and this is really their right to put it to us if they so choose.

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, Brookfield Asset Management Inc. - Managing Partner

And with that, we will end today's call. Thank you, everyone, for joining us.

Operator

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