

TRANSCRIPT: Goldman Sachs US Financial Services Conference – Fireside Chat with Bruce Flatt and Alexander Blostein
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Speakers:

Bruce Flatt, *Chief Executive Officer, Brookfield Asset Management Ltd. and Brookfield Corporation*
Alexander Blostein, *Lead Capital Markets Analyst, Goldman Sachs Group, Inc., Research Division*

PRESENTATION

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

Thanks, everyone. We're going to get moving with our next session. It's my pleasure to introduce Bruce Flatt, CEO of Brookfield Asset Management. Brookfield is one of the largest global alternative asset managers with \$400 billion in fee-generating AUM. The firm is uniquely aligned with several secular growth trends within private markets, including within real assets, global energy transition, private credit along with many others, despite what's obviously been a very challenging environment for the markets, Brookfield has seen significant fundraising momentum, resulting in about 20% fee-related earnings growth over the last 12 months. So, well on your way to sustain sort of the growth targets that you talked about at the Investor Day a couple of months ago. So, thank you for being here. Always great to chat and looking forward to this.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Thanks, Alex.

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

So, why don't we start with a question on private market allocations and for the audience, this is probably going to be an old question since I ask it essentially in every one of these. But if you look at the new paradigm, the new kind of the regime change that we're in today with higher liquid fixed income yields that we really haven't seen since the Global Financial Crisis, to what extent does that change institutional appetite for private assets?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

So first, I'd say we were not in favor three years ago and two years ago, nobody wanted to talk to us. And nobody was interested more or less than what we did because we weren't tech, we weren't growth. We weren't many of the things that were out there. And if you fast-forward that to today, it's very different. And a lot of the things that you said in your remarks, a lot of the things that we do are what people want to invest into it. So, some of my comments are this way because of what we do and because of the global business we have.

So, if you're a single industry, private equity player that has a \$2 billion fund, I don't think you're going to have the same comments from me. What we do for people is on the low end, earn 8%, 9% and on the high end, earn 20% or 25%. Take all of our products, we are in 8% to 25% on 50 different funds. And those -- I guess, the short answer is those returns in a low-ish interest rate environment, which I'll call right now, are exceptional. And they're not -- they're needed in these institutional clients. And so, I don't think it slows. The first answer is. And second, I think what people are finding out even more, and we've witnessed this for a long time, but the distractions of the public markets are terrible for people that have long-term wealth creation in mind.

So, through sovereign plans, if they need money for liquidity, they should have it in fixed income and liquid markets equities. If they don't need it for liquidity, it should all be in private because the problem with the public market is it distracts you from value -- there are two things. You all know this. There's the value of an asset and there's the price that it trades for. Sometimes it's higher, sometimes it's lower.

Once in a while, it's the same. But that price movement distracts from what really matters to wealth creation longer term. And therefore, the short answer is any -- these institutions for both return reasons and focus and distraction reasons, they continue to put more and more money into private and they will continue to -- even though rates are higher today. And there's spread. What's happened today is base rates are higher, but also spreads are much higher, right? That will come in. You're not going to have both of that in the future. But there is an exceptional time for private credit or credit today just because of that environment.

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

Sure. No, we'll get talking to that about that a little bit more. So, when we think about fundraising for Brookfield, one of the things that I mentioned earlier, you guys have been very successful in fundraising of your flagship vehicles this year. As you look forward to 2023 and really even 2024, what fundraising opportunities are you most focused on outside of the flagship funds in order to sustain this kind of 15% to 20% FRE growth target that you've outlined in the past.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Our FRE growth targets are already locked in for 2023, 2024 almost 2025. Like this business doesn't happen overnight. It's a very long-tail business. The funds are raised over periods of time they're deployed over three or four years. So, you always have that out. So, what we're now focused on is what our, let's call it the tale of three years from now, four years from now, five years from now. This business generally -- it will grow at 15% to 20% -- the asset management business grow at 15% to 20% a year for the next five years. So, what we're focused on is Year 6 to 10. And the good thing is global institutions back to my comments earlier, they want Core, Core Plus products in real assets.

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They want opportunistic products in infrastructure. There's enormous amount of money still coming in despite all denominator effect and all that, we just closed \$21 billion for our latest infrastructure fund in six months of fundraising, and we'll do the balance of the fund this year. We did our transition fund, which is a quasi first-time fund. We did \$15 billion. So that was done in six months last -- this year, early this year. So, I would say it's -- for the type of products that are different, we're going to go with our opportunities -- next Opportunities Fund strategy, the Oaktree strategy, which I can't think of a better time. It was 2020 when we raised the last fund at \$16 billion. It was an excellent time but this is going to be really, really good.

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

Yeah. Let's talk about the transition business. It's one of the things you just mentioned. Decarbonization is just one of the major secular themes out there and BAM's investment pace here has been pretty robust. I think about half of the fund that you just raised has been already deployed or committed. What's your outlook for further deployment opportunities here?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Look, we got lucky. Two of our biggest businesses are infrastructure and transition. And these are enormous businesses which trillions and trillions of capital has to go into digitization, deglobalization and decarbonization. Those D's are really, really important to the world and it's trillions of dollars. Specifically, on decarbonization, it's really simple what we're doing in our transition fund. We are taking money from clients, which not many people can do this. And we're putting it in -- we're providing it to companies to help them get to lower carbon within their operations or their businesses. Some of it's really simple.

All we're doing is building wind and renewables, wind and solar, and providing them power on a take-or-pay basis to decarbonize our operations. That's really simple. But then after that, there's a whole bunch of other things. And we're the largest builder of renewables for Amazon today in many countries in the world, and we continue to do that. It's very profitable and it's a very large opportunity. So, we put half the fund to work already. I think we'll be out raising another fund next year, for sure, maybe this year and there's a lot of opportunity and more money is needed. But the difference is this is hard.

We've spent a long time building our renewables infrastructure businesses there. We run the backbone of the economy. These aren't simple things. Many countries, companies won't take people as a counterparty if you don't have that. Like in the United States, you have to have a FERC license to operate in power. We own Westinghouse Electric, we run half the nuclear plants in the world. This is not -- everyone can't do that. So, it just gives you the mote that we have is just different from others. And therefore, we -- look, the goal is of capital, raise money, put it to work and get a good return. How do you do that? You have to differentiate yourself and our differentiation has always been to try to run the operations better and it just gives us scale.

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

You've got some very deep moat in this business, as you pointed out. Obviously, that helps from a competitive advantage perspective is there's a lot of newer players or other players coming into this space with a similar theme, right, like clean energy, decarbonization, it's around the same. But if I think about the evolution of this product over time and almost think of that either as real estate or infrastructure, should we be thinking about sort of variation of a transition business into Core, Core Plus credit? Like is that a whole new ecosystem that you can build around?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Yes. Like our infrastructure, just to go back, our infrastructure, the first fund we started was our -- call it opportunistic, but it's opportunistic infrastructure. So, we are in 14. I think our average for 15 years is 16%, but we promised 14%. That was our first strategy, but now we have Core Plus, we have a debt fund, we have secondaries. And essentially, why that's really important, and I'm going to get to transition, but why that's really important is when we go talk to a company, sometimes they don't want to be taken over.

So, we can go how about Door B, and we'll provide you a minority interest into our Core Plus fund because they're running it, and we're just a partner with them; a good partner and a helpful partner, but we're just a minority partner. Or we can lend the money. So, it allows us to do a lot more things with the companies. In transition, it's just -- this business is just at its infancy and enormous amounts of money are needed. And I think all of those things that I just mentioned will get built out by us and by others, too. Obviously, there's a -- there's -- where there's money, there's old competition. You know that from Goldman Sachs.

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

I've heard that somewhere -- long-term [greedy]. Infrastructure business; let's talk a little bit about that. Again, lots of secular growth opportunities you guys are -- have a really fantastic footprint in this part of the business. In terms of deployment, you've announced two very large deals this year. One is the \$30 billion partnership with Intel for a semiconductor facility in Arizona. And then there's another one for EUR17 billion, I think, with Deutsche Telekom in Germany. So really sizable mandates. So, help us think about are there more of those type of deals we should be thinking about? How does that ultimately make its way through Brookfield's Asset Management business, like where in the P&L does that hit or over what period of time?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

So those are two of the Ds, digitization and deglobalization. And look, semiconductor chips are in medical products and many different things are coming back to the Western world. That takes trillions. This is \$30 billion. It's one plant. This is -- it would -- won't be 2% of chips in the world, \$30 billion, one plant in Arizona. So -- and on the tower side, it's Deutsche Telekom towers in Germany and Austria period. That's it. So, these are big, big businesses. We bought 160,000 towers in India -- very large amounts of money, and it's not stopping.

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The investment by telecom companies into 5G, and therefore, they need data centers, they need towers, they need everything around that ecosystem. They can't afford it on their balance sheets. Intel is one of the best on deglobalization, Intel and all of the other companies that make semiconductor chips. They -- they're A rated, A or A+ rated companies, but they just can't build 10 plants at \$30 billion a crack. And therefore, they need money from outside, and that's what we're here for. So, I think there's a lot of room with these trends for the infrastructure space and for the transition space.

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

Got it. Got it. Great. Let's shift gears a little bit. I was hoping would spend some time on real estate. It's increasingly become the biggest source of debate in the market. Now public real values are down, as we all know, 25%-plus or so year-to-date with probably office and retail to maybe incrementally more scrutiny. Now just maybe one of those you talked about earlier, there's price and value and maybe that's where this is one of those instances where there is a big disconnect.

But what is your investment performance outlook for your real estate book? How is it holding up from just a financial and fundamental perspective? And I guess as cap rates continue to rise and economic growth potential deteriorates, how do you think that portfolio will perform? And that goes for both the on balance sheet, I guess, BPG and BPY plus whatever is in the funds.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

All our funds. Yeah. Look, I -- we've been in the real estate business a long time. We've been through many cycles. We've been through a lot worse than this one, I can tell you. And the only thing I could say is if you own great, great real estate, which we happen to across the board, and you have it in great places, and you run it properly, it endures time and just don't ever get in a situation where you have to sell it. And we're well financed across our whole book. We have great real estate. And what I can tell you is high-quality real estate, both retail, office, industrial, all of the food groups, hotels today are in excellent shape.

Rents in Manhattan, just since we're in Manhattan, rents in Manhattan on premier quality real estate are 50% higher than pre-COVID, 50% higher than 2019. Now if you have an obscure office building, not to denigrate Third Avenue which is built in 1960 and has poor air systems, it's a no bid for leasing. So, there's a huge disparity. And that's not like unlike [always]. The fact is the story has always been buy best building on the best corner pay a little more if you have to, and you'll be fine. And remember most real estate was financed with term financing -- so interest rates doesn't change it. And in fact, what's happening today, back to infrastructure every day, is you're getting adjustments with inflation and real estate, too.

Rents are going higher partly because of inflation. If you need to build a new office building rents are -- costs are much, much higher. So, I'm actually -- I'm quite positive because I think we'll find great value in this market with some of the stress. A lot of the stress is within poor product, and therefore, we probably won't touch it because it's just not worth it. But there's always -- what times like this always bring about is more opportunity to put money to work in amazing opportunities. And I'm -- I think in all

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of our businesses, in the next 18 months, we're going to find some phenomenal things to do just because of the environment, and we have significant cash and capital available from our clients to be able to put to work. And I'm actually quite excited about it.

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

Is there anything you think is starting to bubble up on your screen as far as areas of stress within real estate that you are likely to participate in. So clearly, not the lower quality stuff but higher quality that you would view as kind of a premier asset for one reason or another?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

No, not yet. Most real estate is in pretty good hands. Look, retail malls were shut down. Their sales, if you have a good mall today, it's 35% above 2019 sales, 35% above 2019. So, like we had worst. Everyone went home and never went to an office building, remember, they were leased, so they're still paying the rent. Retail malls were shut down and hotels, nobody went to. Like, you couldn't have had anything worse 2.5 years ago, and the business survived and the cash flows are higher and it's growing. And we should just remember price and value. People for some weird reason today, think the price is lower than the value or they're unsure, so they price it here in the public markets. It might have been priced here, but it's priced here today. Value is the discounted cash flow analysis based on a stream of income. And I would say the markets are wrong generally, but you have to be selective because some it's just bad real estate and you won't do very well with it.

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

Yeah, yeah. You mentioned deployment as part of your last answer. So, let's talk a little bit about that. I think as of the last quarter, you had about \$39 billion of dry powder that will turn on fees upon deployment. That is going to drive \$390 million or so in revenues. Lots of it is in credit. And I think you mentioned that this is going to be one of the best opportunities for Oaktree and their team. So, talk just a little bit about what they're doing, how fast do you think they'll be able to put capital to work over the next, call it, 12 to 18 months?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Yeah. So, we have two, I'll call it, two pools of credit money today. Balance sheet credit money, which is our insurance business and that's \$50 billion and all of our pools of money in our Oaktree franchise. And both of those are seeing -- we're seeing and we are putting money to work today in very significant amounts buying first lien paper, buying mez paper, putting all of our credit money to work with returns which are excellent. Will they get better at some point? Maybe. We've got lots of capital to go after this. And one just has to invest when you find some really good returns. But just take our insurance business, we bought a book -- we bought three pools of insurance money 24 months ago on the assumption that interest rates would go up some time.

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They happened to go up quicker than we thought. And we've locked in 3% over here. And we put all of the assets, we liquidated all of the equities and all of the fixed income instruments beyond 18 months. So, we're sitting on enormous amounts of cash and we're now putting that into incredible fixed income opportunities. And I think on the distress side, Oaktree is going to have an unbelievable next 24 months, putting money to work both in the fund they have today, but in the next fund that we raise. In addition to that, the Direct Origination Credit business is evolving around the world. And I think there's going to be a lot more opportunity for that in our Oaktree business.

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

Is that largely sponsor-based or are you guys building it out a little broader?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Both.

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

Both. You mentioned insurance. So, why don't we go there next. Clearly, the earnings run rate continues to surprise to the upside. A lot of that, I think, is a function of interest rates, to your point. So, I think kind of going from \$400 million to \$550 in just a few quarters on an annual basis, the spread income that you guys are generating on that book. How do you think that's going to evolve from here? I know that resides on you guys managing some of that money, which is not really part of the current run rate. So, you're kind of holding rates steady from here on, what's kind of the build in earnings power of the book?

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Yes. Look, it's very -- it's very powerful right now. Because remember, what I said earlier, we bought a portfolio in most -- somebody that viewed themselves an insurance business wouldn't do this. We bought these books, liquidated everything, put it into cash, sat on no return for 1.5 years. Nobody does that unless you're an investor. So, our view is take as little risk as possible in insurance and earn our money doing what we do, which is invest. And right now, we're taking a cash portfolio and putting it into things at 8%, 10%, 12%, 14% yields. And that's very positive to that business, and it's very positive for our earnings stream that comes through.

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

Let's talk a little bit about retail. It definitely been a topic du jour for the last week or so. You guys have pretty meaningful ambitions to build that business out. You don't have a whole lot of retail footprint today in some of those products, but the goal is to build. So thinking through the volatility we've seen in the market, does that change your view on what the opportunity set is here for Brookfield.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

So, when you asked me a year ago, I was trying to say we had more than we actually had because everyone was talking about retail. And now we don't have very much. So, I can be pleased about that.

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

Glass half full, glass half empty.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Yes, exactly. Look, here's what I would say. Our business is in 30 countries of the world. We raise funds from 2,000 institutional investors around the world. We have an insurance book and an insurance business with a large and growing number of insurance companies and helping them do the same things that we do.

We have many different channels of retail in our listed vehicles. And we started into dappling into retail. And I guess our goal of all of these distribution channels is to build them methodically with the right products when it makes sense and be disciplined about it. And we just haven't got there yet. And we're still learning, and we're still in the infancy of it. We've hired a lot of people. We're spending a lot of money on it, and we will get there one day. But I think what's going to happen now is that all of these products will evolve and people will learn from the things and we always do. And I guess I was -- until we learn everything we'd like to just do slowly and methodically.

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

All right. Let's shift gears a little bit. Maybe we can talk about some of the recent news flow for the firm with one of the big announcements, which -- by the way, you hinted to that, I think, at our conference here last year about the spin-off of the Asset Management business as a way to unlock value. You're kind of in the middle of that. I think both [BAM], the asset manager [in Vienna] are trading when they should market, supposed to close, I guess, in the next couple of days here. So once this transaction closes, what other incremental opportunities do you see for standalone Brookfield Asset Manager that could present themselves that maybe weren't open to you guys as part of the bigger conglomerate.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

So just for everyone benefit, if they don't know this Brookfield today, the listed vehicle will be called Brookfield Corporation, and we're dropping the asset manager down, and we're distributing basically a stock split -- we're distributing 25% of the shares of the manager to our owners, to the shareholders. And we've done this seven times before, spun things out to our shareholders because we believe the owners own the business, why do an IPO, give it to our owners. This one, we're actually really -- I'm always excited about them but after our number seven, but this one --

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

This one's a little bigger.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

This one's bigger. It's a very large business. It generates \$2 billion of cash flow. It grows at 15% to 20%. It has no debt. We'll pay out 90% of it. We're going to own 75% of it upwards in the parent company in Brookfield Corporation. And it really does two things for us. For those that want to be in a great manager, you can now buy that security on its own and not take the risks or rewards which again being

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in this other entity. And in this other entity, it now frees us up to not have to explain to people, no, no, no, we're a manager. No, we're not a manager, we're asset heavy. This one is asset light. If you want asset light, it's there. If you want to be with us in asset heavy 18 months ago or 30 months ago, we weren't in the insurance business.

Today, we're in insurance business, and it's going to become very large 10 years from today. So, we changed the complexion of that business, and we've changed the complexion of that business 5x over 30 years. This one will be an Asset Management business, and it's going to be an Asset Management business for a long time. So, to get to the answer, sorry to belabor it, but this Asset Management business will now be able to have a group of people totally focused on asset management that will have a security in the marketplace that [we] incented properly with it without all of the other things along over here. And we may be able to use it to do things to grow the business, may. Don't know, but may. It opens options A, properly and B, if the opportunities come along that we think are as good as what we have and we -- because it has some cash, but probably not enough, it would have issue with security to be able to do it. It would have to be better than what we have today.

In the corporation, it opens up a whole bunch of things. We often get opportunities that come along that are far bigger than our funds that we've been loathed to do them in the corporation and confuse people, but now that's what this entity is going to do. And it's going to fund all of the businesses we have in the manager. It's going to support all the funds. It's going to support the manager it's going to do all the things it's done before. We get the benefits of everything because we own 75% of it. But what it's going to do is it's going to possibly take on other businesses, insurance being one, but use the insurance float and all of the other capital that we have to be a home for businesses, which are larger than what would ever fit in the funds.

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

So I guess to just follow up on that point when it comes to the manager strategy seems pretty simple. And if awards you guys with an ultimately standalone currency at a higher multiple, maybe there are some deals you guys could do that will enhance the franchise down the road, etc.

When it comes to the corporation, is your capital return angle to that at all if the stock trades at a meaningful discount to what the intrinsic value is because again, you will actually be able to see a lot of the intrinsic of value because a lot of it is going to be the public markets, the only piece that's not is really insurance and real estate.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

Hey, look, it's just capital allocation. And if it trades cheap, we're going to have lots of capital, and we can buy the stock back. So, it offers -- we'll have the opportunity to do that. And so, we'll have to see -- but look, we're in the business of making money for our owners, full stop. And now that vehicle out there will have lots of freedom to do what it wants and buying -- including buying stock back if it trades cheaply.

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

Yes. Perfect. Okay. We have a couple of minutes left on the clock. So, if anybody in the room has a question for Bruce, let us know. One over here, please.

Q&A

Unidentified Participant

Thanks for the time, Bruce. Really love what you're doing with the spin. I feel like it definitely isolates the asset manager and kind of helps really kind of give a better valuation to that. But I guess to follow up on Alex's point, like if you look at the [when-issued] market it's basically implying that BPG is valued at like 75% of what you guys have it at. So how aggressive could you actually be on the repurchases to basically kind of address that question between the value and the price dynamics such that it doesn't create a permanent valuation footprint in the marketplace.

Bruce Flatt, CEO, Brookfield Asset Management Ltd and Brookfield Corporation

So, look, I don't know. I actually haven't looked at the [when-issued] market. And I doubt it's reflective of what most people think the securities are worth. I'd say in the next -- as things settle out over the next six -- three, six months, I think we'll be able to tell what people think of that security. Until then, I don't know. But the bottom line is we're highly incented as management and as owners of the business, just like all shareholders are, to ensure that our securities at least trade at a fair representation. And if not, it's the greatest opportunity we can do because we know the businesses. So, unlike many management of some companies that don't understand the arithmetic of what's in the company we price our assets every single day. And so, if it trades for a period of time at a big discount, we'll obviously keep buying back stock.

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

Great. All right. Well, I think we are going to be it there. Bruce, thank you so much. Great to see you. Please to have you.