

# Brookfield

## TRANSCRIPT: Brookfield Asset Management Inc. 2022 Investor Day September 29, 2022

### SPEAKERS:

#### *Opening Remarks & Fireside Chat*

- Suzanne Fleming, Brookfield, Managing Partner, Branding and Communications
- Mark Carney, Brookfield, Vice Chair & Head of Transition
- Bruce Flatt, Brookfield, Chief Executive Officer
- Amanda Lang, Business Journalist, BNN Bloomberg

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### **Suzanne Fleming, Brookfield, Managing Partner, Branding and Communications**

Good afternoon, everyone, and welcome to the Brookfield Affiliates 2022 Investor Day. Thanks for joining us, both everyone in the room here and for those watching online. My name is Suzanne Fleming, and I head Communications for Brookfield.

Today, we're going to start with fireside chat with Bruce Flatt and Mark Carney, moderated by BNN's Amanda Lang. Then we'll have an update from Brookfield Renewable Partners, followed by Brookfield Business Partners and, finally, Brookfield Infrastructure Partners. We'll leave time for questions at the end of each session.

And for those of you in the room, if you have a question, just raise your hand, we'll bring a mic and for those of you online, just submit your question in the box on the screen. And as always, we'd like to remind you that in responding to questions and in talking about new initiatives and our financial and operating performance, for the Brookfield companies presenting today, we may make forward-looking statements, including forward-looking statements within the meaning of applicable Canadian and U.S. 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 may differ materially from such statements. For further information on these risks and their potential impacts on our companies, please see our filings with the securities regulators in Canada and the U.S., which are available on our website.

And with that, I will hand it over to Amanda.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

Thanks so much, Suzanne, and it's a pleasure to be with all of you and to be here with Mark Carney and Bruce Flatt, who, of course, both of whom need no introduction in this room or sphere. I want to start with a question about unforeseeable events and how it affects your thinking and if this were a few days ago, a week ago or so, we probably would be talking about surprise Russian war on Ukraine.

Today, we're talking about one of the most stable economies of the world being put on notice by the IMF for the behavior of its government, the U.K. and the actions of the last week are an unforeseeable risk in the world and Mark, obviously, as a former central governor Bank of England Governor, you have a view of all of this. I wanted in that lens, and I'm going to force Bruce to answer it as well because it's the kind

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of event that when you're trying to set strategy and run businesses and allocate capital, it's a pretty big headwind, and it's certainly one you can't predict.

### **Bruce Flatt, Brookfield, Chief Executive Officer**

I don't know anything about the Bank of England.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes. Okay. Well, first off, it's a pleasure to be here, and thank you all for coming in the room and online. I guess the first way I'd answer that is what's foreseeable about the unforeseeable event, and we'll take the situation in the U.K.

The first is from a market dynamic perspective, without question, risk premia are coming back into all asset classes, whether that's credit, currency, equities, et cetera. We've foreseen that, and we'll get into the specific strategies over the balance of the day, how we're well positioned for that. But that's foreseeable, and that's going to continue and we're in a process of re-pricing risk that has a ways to run – that's the first thing.

The second is to go to the macroeconomics of it, the strategy of the U.K. government. The first thing that's foreseeable about what they did is the objective of the budget or the mini budget, as it was described, was to increase the trend growth rate in the U.K. to 2.5%. The focus was on the supply side of the economy. And that's foreseeable because what's happening in the world is we're going through this process that we tried to describe it as a hinge moment in history, where the supply side is becoming much more important.

The nature of globalization is changing. It's not ending, but it's changing. There's more fragmentation, so you're going to be live to that. Governments are more constrained, without question, we'll get into that. And that means in infrastructure and renewables and the energy transformation, greater reliance on the private sector. Everybody has to think about resilience a lot more. If we've learned anything from the last 12, 15 years of shocks, finance, health, defense, geopolitics, et cetera, supply chain shocks that you got to build resilience in, as well.

So what's foreseeable is the strategy, what was perhaps less foreseeable was the execution of the strategy. And I'll finish on this, which is that the challenge that has played out in the last few days is that the strategy has been executed in a way that promised the improvements in growth, the sort of measures that would improve growth. And most of those measures don't involve spending money involve changing regulation and approaches – they're still to come.

The spending of fiscal capital, if you will, fiscal space, was very short term, was unlikely to have the benefits there and wasn't costed and then ran directly against what the Bank of England was trying to do and that's where the risk premia came in, and we saw quite a sharp re-pricing of risk, both for the currency, for the credit, the sovereign credit and then that's spilled over more broadly in the financial markets in a very short-term way and what the Bank of England did yesterday, is doing for the next few weeks, is a way to take that last bit of the risk premia out. So yes, things will happen, but the bigger trends are foreseeable, are going to price risk, there's huge infrastructure and other needs, the supply side really matters and because those are foreseeable, we can build a strategy around those.

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**Amanda Lang, Business Journalist, BNN Bloomberg**

Which sounds a bit, Bruce, as though you can look through these events and stay true to the big trends that you were already basing your strategy on. Is that how you treat this kind of – I don't want to call it noise, as it's a pretty serious thing that's happening right now, but do you look through them at those strategies you're already pursuing because they're big slow-moving events?

**Bruce Flatt, Brookfield, Chief Executive Officer**

So before I do that, I just want to say on behalf of everyone at Brookfield, thank you for being here, and thank you for participating in our companies - this event and everything we do with you. So, thank you. So I want to give that advertisement first.

Look, I would say – look, I'd just say every crisis we have is always the worst crisis we have. Everyone looks down and freaks out and says this is a terrible thing, and there's never been anything as bad before and then two years later, we have the worst crisis we've ever seen, and we've never had one that's been as worse. And it always is at the time because it's always different.

And so I would just, I guess, my only comment on all of these things, and I don't have to run a government but is – if you have a long-term plan, if you have a long-term business, as long as you're thoughtful about it and don't get yourself in financial trouble, these things come and go.

And I guess I – that's what we try to see through but there are - along the way, you can always advantage yourself or capitalize on situations which offer opportunities that you wouldn't have otherwise had. And so I'd say that, like, I guess what we try to do is keep clear heads in times like this and just keep going at the things you've been doing and we're in a fortunate situation.

We have large sums of capital on our balance sheet and in our different funds to be able to put to work, and we are and we will put more money to work probably at things, if you go – if you look back two years ago, if you were buying them then, they're going to be these ones will be great. Those ones might have been okay. And so it just – it affords opportunities you wouldn't find otherwise.

**Amanda Lang, Business Journalist, BNN Bloomberg**

So – and you, in part, jumped ahead because it's anybody that knows Brookfield would know you have, in your history, taken advantage of moments of what people would call great crisis, post credit crisis. You made important transformative acquisition. You could argue even that Oaktree a couple of years ago was a view to where things were going. Given what's happening now, is there a – when you put your head on the pillow at night, is there a part of your brain that's thinking, what is the opportunity here in all of this that I hadn't seen until now? Or is it a kind of a through-line as we're talking about?

**Bruce Flatt, Brookfield, Chief Executive Officer**

Yes. Look, I – what happens in times like this, and we've seen it over the past 25 years in the asset management business is that sovereign institutional plans keep getting bigger and bigger and bigger. They can only manage so many relationships and at times like this, they consolidate into the few that are – they're comfortable with are strong and that they can grow with. And so I'd say the biggest thing for us is just keep steady, keep building, keep growing, keep putting their money to work, and you come out the other side, much, much stronger.

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Our – I kind of think of this as we're still in the crisis that was created in February of 2020. This is not a new crisis. This started in February of 2020. We floated our way through with Central Bank money and we're now just having the ramifications of it. We're going to have the recession we never had in 2020. And so I think of it as a compendium and are – we got into the insurance business in mid-2020. And I think that's going to be a very exciting opportunity for us in the fullness of time as we execute what we want to do in the insurance business.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

And I want to – we are going to talk more about that because I think you've got pretty ambitious plans on that front. I do want to say also somewhat belatedly to the folks in the room and on the live stream that we will welcome your questions at the end. I'll call for them, so either in the room or I've got an iPad here taking them from online. So there will be an opportunity. If you have a question as it comes up, just file it away for now.

Mark, I do want to just step back to this hinge notion. It's a reference to Churchill. For those of you who have seen Mark speak about this before. It's an important line of thinking. It predates the pandemic. It's a slow-moving trend, but it does – it's one we've all seen pieces of, but you've got a kind of a comprehensive view of what this means. So just flesh it out because I think it's really important for people to understand because I think it will change our thinking about some things.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes. And I think the element of it is a greater emphasis on resilience as opposed to efficiencies. So, look, I started my career in finance in the city of London just before the fall of the Berlin Wall and basically, for the vast majority of it, really up until the last few years, it's a process of steady integration of the global economy, convergence, deregulation - these are the broad-brush trends. Huge benefits to the world, billion people out of poverty and on.

However, there's a series of shocks, and the first one is the financial crisis back in 2008. And the response to that is, okay, we need to build resilience in the banking system in the core of it. So there's more capital, there's more liquidity there. Then we get the shock to the euro crisis. They do various things in Europe to help shore things up - COVID, health, we know we need to spend more money on health. I mean that's obviously preventative. Russia, geopolitics, more money on defense. Everybody is going to up on defense.

A lesson for companies has been that single source, very stretched global supply chains have risk to them. They've got great efficiencies, but they have risk. So even before you start putting in geopolitics on top of that, which you've had to since February 24<sup>th</sup>, and you think about building resilience in that, as well. And that's a shift. It's a regime shift. And it's a regime – and it's accelerating. I just want to reemphasize something Bruce just said around COVID, and you were nodding, so I think you agree, which is that we're almost in three acts of COVID.

We had the first act, which is we all locked down, we have the health. Then we have this gradual and 2 steps forward, 1 step back process of reopening at different paces, different parts of the economy. We're still at the early stages of the readjustment or the rebalancing of the economy that goes from that. But it's in the context of a world that puts greater weight on efficiency – or sorry, resilience relative to efficiency, where governments are very, very constrained and then in terms of the investment backdrop, where we're out of the world of low for long, we're in the higher – not just higher for longer in terms of

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Fed policy in the near term but arguably, in terms of longer-term interest rates, moving back to a more normal level of 10-year rates.

So we think about terminal value a lot. We always think about terminal value a lot, but we think about it in that environment. Also, I would add, and we'll hear more about this in an environment where the world is moving to a lower carbon economy. So we have that lens as well. So those are big, big forces that, in many respects, this is not a dark story because you're returning to something more normal, right? It was an abnormal period for the last decade plus. It's a little painful going from one to the other, but we're positioned for that. And then we're also in a world where it's going to mean a lot more investment and a lot more investment closer to home.

Friend shoring means investment closer to home, protecting your data means investment in data infrastructure, Sam will talk about that - closer to home. Moving towards resilience in energy systems means Connor and Natalie investing in renewables closer to home. And so there's a big capital component of this as well. And it does mean if we get it right, the collective we get it right, that we don't have – we'll always have crises, there will always be shocks, but they're not as sharp as downdrafts as we've seen in the recent past.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

There are a lot of threads to pull on that. One of them that I think is going to be – it will play out over time but for a company, a set of companies, if you will, like Brookfield at the operating level, Bruce, this notion of from efficiency to resiliency. We can talk about it at a very theoretical macro level. It's going to hit balance sheet that's going to hit P&L. People are going to have to make decisions about supply chain and cost and how they measure effectiveness. If we move away from a world where efficiency is the thing we price the most to something else, just in-case delivery rather than just in time, have you started to think about how you might shift your thinking about what performance looks like, what metrics matter?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

So look, I – yes, it's more – it's going to be more costly, but companies can absorb – will absorb it over time. Yes, maybe they'll make a little less profit but they'll figure it out some other way. I do think, though, these trends that Mark just mentioned are unbelievable trends, and we just happened to get lucky in that we're in the midst of them. The reshoring of battery plants, semiconductor plants, health care goods is coming back and it's all coming back. It – all is a strong word, but a lot of it is coming back, and this is trillions – and the team will talk about it later.

And the energy transition, it's an enormous build-out in the Western world. And before, it was about carbon lowering carbon. But today, it's about energy security. There are only three ways to have your own energy security if you don't own local natural gas that you pull out of the ground yourself and that's solar, wind or nuclear. And every country in the world, and we talk to them all, every country in the world is going there.

So these are enormous trends that are happening, and there's going to be a lot of money put to work and you ask what changed in this environment. The fact is we have very significant amounts of capital to put to work in those businesses and are known for it. Therefore, people come and talk to us.

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And increasingly, our business is about being a good counterparty, so people want to deal with us, having large sums of money and helping them achieve their goals and I'm not sure – that wasn't our business 15 years ago, but that increasingly is our business today. And with what's going on, it's highly attractive.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

One of the kind of poetic things thinking about this period of history that starts with the fall of the Berlin Wall, and you make this point is you could almost bookend it with Putin's aggression in Ukraine. That is sort of this – the end of that era. For those of us who literally grew up, professionally speaking, in that era, you can't help but be a tiny bit disheartened by Intel building a fab in Arizona. But the onshoring trend does run contrary to a long time of thinking that globalization is better, that global integration is better, that the competitive advantage is the rule that we should all live by. Is there a chance that those beliefs and forces will reassert themselves, that this will be a short-term trend?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Before he goes, I'm going to say I'm quite heartened by Intel being in Arizona.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

Well, as you say, Bruce, you're very well positioned for this trend for sure. So I guess the risk is, does it – is it a short-lived trend?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Everything gets blown out of proportion at extremes. Right now, the stock markets are selling off. Well, they'll go back. Like these things – everything gets taken at extremes. The one one thing, though, is United States cannot have all of its semiconductor chips, which runs everything in the economy, not sitting in the United States of America. That's not – that can't happen. It just can't be. It probably shouldn't have happened. It did, but it probably shouldn't have happened, and therefore, it's coming back.

Now is everything coming back? No. But a very significant part is coming back to America and there are lots of other things because they just can't take the risk. The gas situation in Germany is really unfortunate. It could have been avoided. And that is – that's what's happening.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes, I think that – I mean, that's absolutely right. And you think – let's give an example from, let's say, outside of business, although business supplies it, which is France had more than a year supply of PPE and masks and things as part of their pandemic preparedness up till about two years before the pandemic. And then somebody sat down and said, "Wait a minute, we can get it cheaper on the global market. So let's get rid of this, and then we'll just buy it when we need it." Well, guess what, when you have a pandemic, I mean, we all know how the story ends, it's global, and you can't – so there are certain things you can't rely on in extremis.

It's why you have central banks. You can't rely on liquidity from the market, except – and that's ultimately why you have to have Central Bank. And so there's certain activities where it makes sense to have some diversification supply. I don't view – I view that more as a recognition of things going to one extreme and pulling back a bit from that extreme.

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Obviously, there are geopolitical tensions, which one would hope and I'm thinking more vis-a-vis Asia as opposed with Russia, which is just so off the charts, that, that will evolve in a better place. But it still will hold that the highest value-add activities, the most critical parts of the supply chain, you're going to want some close to home.

And here's a key thing, and we're sitting here in Canada and they'll make the Canadian point, which is close to home. And there's a reason why the U.S. Treasury Secretary says friend shoring because it's who's a reliable partner. And one of the things we look at, and we're involved in, and I'm going to peel back on the renewable side is that as companies are thinking about where they're putting the marginal plant or getting the marginal supplier to think about this issue and they also think at the same time, where they're getting the power from. And is it clean power because actually, I care about that I'm making two strategic decisions at the same time.

So I think we'd like to see your world where this is a trough and it's coming back. But even as it comes back, I don't think the lessons will be fully forgotten and we've learned this lesson a few times in different areas, and it's the right application.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

And you make the reference to Russia as being an example, but China being the real example. And China's shift away from Western style democracy, capitalism was happening before this pandemic. It was a marked political decision. It may be one to roost when we think about that and the kind of long-term consequences, Asia has been seen as a real area of opportunity and growth for Brookfield because you're underrepresented there proportionately. Has your feeling or thoughts changed about the opportunity given the kind of political reality?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

It's still relatively small for us on a global basis. When you look at it. So, we keep – I guess, what we – what's important for us is countries have good rule of law. We buy things in the country, and we normally operate them there as a local. So what goes over borders and what transfers back and forth isn't so relevant to us. What you have to have is a reasonable way to operate and be able to run your business.

And I can say that everything we've done in China, we've been treated extremely well and always been able to do everything we need to do. I don't think that's going to change in the future. So we keep investing and we keep doing things. But we're – it's modest related to the whole business. Broader Asia, we keep building out significantly, and we'll continue to do that.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

We should talk renewables. One of the things, Mark, that you are at Brookfield to do is to spearhead this part of this transition and investing in the transition. There is a lot of money that will be spent. In some ways, on a relative basis, Brookfield isn't overrepresented investing there compared to other parts of the business but where is the risk in those investments? And I say that because, again, that the kind of regulatory environment, the political environment is very uncertain. We still don't quite know the path forward, although we know there will be one.



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## **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes. I think – I actually think this is a very low-risk area. Given first, the geographies in which we're investing predominantly North America, Europe, some of the major Asian markets, certainly, proven regulatory environment, very clear medium-term and long-term energy strategies so that governments change, the trajectory might shift a bit, but it's still the same trajectory.

In fact, the only changes we've really seen in the last couple of years have been – I wouldn't even say a doubling down if you look at Europe as a whole. It's a tripling down in terms of the pace of renewable deployment, something similar in the U.K. we're seeing the market increase in the U.S. as well. So the geographies we're in, that's the first thing.

The second is the cost competitiveness. Where we're investing is in proven technologies, and the cost competitiveness is just there. So it's not – this is not the future technologies that likely will get there, which are heavily reliant on government support in order to get there, which might be, as you suggest, be taken away at a future point.

And then the third thing that's important and Natalie will go through this, I'm sure she'll go through everything, Natalie, I'm teasing you up for everything that you're going to answer all detail, but is the operating expertise we bring, and that's something to all the businesses. Cyrus and Anuj run the private equity business focused on operating expertise.

Having 3,000 operating professionals in the renewable business, that takes out a lot of risk because you know what's going on, on the ground literally on the ground, in the air as well and you can anticipate issues. You can anticipate supply chain issues. You can manage them much better. So all of that, there's nothing without risk, but it's substantially – substantial low risk.

## **Bruce Flatt, Brookfield, Chief Executive Officer**

Amanda, I was going to add to that is that I think the thing that's really important that most people don't quite factor in is that they still think of solar and wind from 10 years ago or 20 years ago or 30 years ago. It was nascent 30 years ago. It was starting 20 years ago. It was highly subsidized 10 years ago. And today, it literally is the lowest cost energy source in virtually every market in the world. I'm going to say it again, the lowest cost energy source in virtually every market in the world. And that's an amazing thing.

And that's – like people talk about technology. They think of Google, which is an amazing technology company. But solar and wind in a 10-year period became the lowest cost energy in the world and that is all through technology and scale manufacturing. And so it's literally – so it used to be risky when you had to have subsidies and some government was there and they're going to change their mind. We're just signing open contracts with great corporations to deliver them energy, and that's really what's changed in the world.

## **Amanda Lang, Business Journalist, BNN Bloomberg**

For sure, although there is still risk on the storage distribution side, especially distribution side, right? The problem with the transformation is less that we can access new sources of energy and more that we don't really have the capacity to deliver it. Our grids are not up to this task.



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## Mark Carney, Brookfield, Vice Chair & Head of Transition

Well, I mean two things, if I may, just piggyback on what Bruce is saying, one and directly to distribution, so a lot of what we're doing is – I mean, it's – there is no distribution because it's direct to the users. So PPA is direct with the company's distributed generation. We can talk about that. Ultimately, the interesting thing down the road is how that all gets knit back together. But companies are going around the grid in order to get this low-cost power for the reason we have.

But the thing I wanted to add just in terms of technologies is there's two other technologies that, I think, give an idea to these broader trends in the strategy. Bruce mentioned one, which is nuclear. There is no transition that works without nuclear, full stop. We have exposure through Westinghouse and Cyrus' private equity business, but we look at ways to participate in nuclear, first thing.

Second is around hydrogen. Now hydrogen is in a position that solar and wind were 10 years ago or so, 10, 15 years ago, where it is still dependent on government support, power purchase arrangements and others. And so we look in the case of hydrogen and to a lesser degree, carbon capture and storage, where it is more economic but still has some component of this is where can we see a floored return, where there is some support where we're confident in that. We build the expertise because we see for both of these that the trend is clear. The inflection point for the economics is coming pretty quickly, and then we want to participate quite heavily in it in just on a straight-up basis as we do today in wind and solar.

## Amanda Lang, Business Journalist, BNN Bloomberg

Nuclear, obviously, is – there's going to be, as you say, Mark, we're going to need to continue to invest. But there's been – is that a real opportunity here? Because there has been this kind of wintry period for nuclear globally, if you will. It's probably the wrong expression used when it comes to nuclear. But there've been a cooling off on our interest in nuclear. It's coming back as there's a reality around it. What role will you play in that?

## Bruce Flatt, Brookfield, Chief Executive Officer

Those of you that know, Westinghouse operates 50% of all nuclear plants in the world. So we have a vested interest in this. But I would say – we've been invested for – I'm looking for Cyrus, six years? Five years. When we started into it, what we assumed was because of all the information that was out there that we would run the plants down over time. That was our base case. Today, I think there's a paradigm shift. And the paradigm shift is energy security. And like – yes, it's decarbonization. Yes, it's all those other things but it's energy security.

If you don't have natural gas, if you don't have natural gas locally and some countries don't have that much sun, we're in Canada, don't have that much sun and some don't have land for solar, you need a lot of land, the only other way is nuclear. And that is coming fast. And so, we're going to be building new big plants for a country's utilities but also smaller battery technologies based off the nuclear coming.

And that's going to be, as Mark said, there's only one way to have a carbon-free world and that's with nuclear. So there's a whole paradigm shift going on. And I think the – Mark may say it's the decarbonization, I actually think as important to that and what's got people now changed globally is energy security.

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## **Amanda Lang, Business Journalist, BNN Bloomberg**

Before I open this up to questions in just a moment, I'll start in the room, then I'll go online, I want to talk about insurance and your ambitions there because they seem sizable. What's your vision?

## **Bruce Flatt, Brookfield, Chief Executive Officer**

Look, the vision is we provide investment products to sovereign funds, institutional clients and others, including our retail investors who invest through our products in the market. Hence, we're here today. And we try to do that in a low-risk way and earn reasonable returns. And those products happen to fit. What's – what came to us many years ago as they happen to be the perfect asset for institutional plans but also insurance businesses.

And insurance businesses don't have what we have, which is an enormous sourcing mechanism to find those type of assets and the things that we do are ideal for insurance portfolios. So we wanted to be insurance for a long time, but it was – the risk was interest rates were going down and down and down and down and down. And as you did that, you were taking on liabilities where there was risk. When interest rates got to zero, we decided this was the time.

So we started into insurance, and I think it's going to grow. It will be very, very large in Brookfield 20 years from now because whatever liability we're taking on, on this side in the interest rate environment we're in, we're going to be able to out earn it on this side just because of what we do.

And really, it's just taking the things that we do for our clients and offering them in our own portfolios of insurance. The added benefit is we have a lot of insurance companies that are clients as well, and we're going to be – we are, and we're going to be able to provide them capital in different forms and make our products better for them because we now understand their issues better. When you do something yourself, you always can do it better for somebody else. And so it's been really beneficial in many ways, and we're excited about it.

## **Amanda Lang, Business Journalist, BNN Bloomberg**

Before I come out here, I'm both to come out here. Your – the invested capital at the end of Q2 in your affiliates is 48% BEP, 27% BIP, 65% BBU. If we look out five years, any material changes in that invested capital?

## **Bruce Flatt, Brookfield, Chief Executive Officer**

Look, we have a balance sheet. We have \$10 billion of debt and \$100 billion of capital. So we have no need for money, let's just say that, in Brookfield. We're highly underleveraged. We intend to stay that way. It will be opportunistic. It always has been. And I think the great success of our – if we have anything that contributes to our success, it's trying to be flexible and never get too set in the ways of what we are.

And if there's some merger that comes along that's unbelievably valuable for one of those entities to combine in, and it's going to be good for everybody, we will be diluted – will allow ourselves get diluted down. If they trade terrible and there's excess cash in the vehicles, we may go up because they'll be buying stock back. If they need money, we're going to support them and we'll go higher.

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So we have no set number, and they're all at comfortable numbers. They trade the market pretty well, and they're getting bigger and they're very, very valuable for us, and we try to have them in the marketplace and so there's no real set number.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

Ultimate flexibility. Do we have any questions from the room? I do have a question coming from online, and I'm going to pitch it to Mark, although there's an angle on it, I understood, in Bruce's view. Obviously, tackling inflation is one of the big questions, issues the world faces right now is a loosening of the labor market a prerequisite for that? Is that tight labor market, the real issue right now?

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes. It's a great question. I mean it's one of the elements of this process of let's call it a 3-stage process of COVID in that we're at the stage where there is scarring to varying degrees in different economies of the labor market. You see it most – in many respects, most strikingly in the U.S., which historically the most flexible bit of the labor market, 1.5 million, maybe 2 million people out of the labor force, which is one of the challenges.

So, there's two ways for this to be reconciled. The happy way is the questions premise which is that the labor market becomes more flexible, more people come back to work, different ways of working. All these advantages come in, and the supply side solves the issue.

If you're a central bank and you're at this stage of the movie, you can't wait for that. And so you have to adjust demand to the labor market that you have, and that's part of the process that's underway in the U.S. and Canada and elsewhere. And so it's – and the softest way to do that, but incredibly hard to execute is to have the economy grow at a little less than its trend rate of growth and speed limit, and the two magically come together.

Given the scale of the forces, that's going to be exceptionally difficult to do, which is why there's been the repricing gradually in markets and expectations. And on balance, it's more likely than not that economies will slow further before they pick up again.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

Bruce, one of the implications here has been, of course, that corporate profits will be affected by a rising cost base. You could – one can argue that corporate profit has run high for a long time. Wages have stayed lower than they needed to be or should have been, and that they could come up, profits could come down, that there's a kind of a rational righting of that. Is that – that does affect valuations in the short term, but it doesn't have to affect them forever.

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Yes. Look, I would just say, I don't think Mark is suggesting we're changing the – I'm going to say this is a question to you - but Mark's not suggesting we're changing the paradigm of interest rates. Meaning rates are going higher, but they're still staying relatively low. If you had a 4% or 5% interest rate, this was what was normal, and COVID zero was not normal, and everybody should understand that – and understood that and what's happening now is we're just going back to some semblance of normal.

## Brookfield

### **Amanda Lang, Business Journalist, BNN Bloomberg**

This is an important question, though, I'll ask both of you for – since 2009, some of us have waited for normal for 4% to settle back in, never did come – is that where we land? Do we get to four and stay there? Or do we get to four and then pull back?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Going to ask the macroeconomist first.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Yes. On the one hand, on the other hand is your answer but –

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Then I'll give you a real answer.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

I'll give you this sort of long-winded answer then you – but the...

Are we headed back to something like that? And I think most importantly, for the horizon, we look at a 10-year – if you think about a 10-year rates, you're heading up towards 4%, 5%, 10-year U.S. treasury - Yes, that's quite reasonable. And that's normal because you've got the U.S. economy potentially growing at 2%. You've got 2% inflation once the Fed gets it back down. And you've got a bit of a risk premium like you should get paid for owning a 10-year bond because inflation might bounce up, it might bounce – so you have that fluctuation in and around that. And so that's – and it's – but it's a painful process when a bunch of assets, not ones we have, but a bunch of assets have been priced for 1%, 2% interest rates forever. And so this is the shift that's happening.

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Yes. So I'd add, we – that's what's getting killed. Like you would have a different view – if we were – you were up here interviewing growth stock people, you'd have a different view. If you're buying things on 45x revenue, it's really tough today. They're – like I – on the weekends, I go through stocks and look at them that are down 75%.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

Like can you comfortably make an investing decision today that predicates 4% 10 years from now, five years from now?

### **Bruce Flatt, Brookfield, Chief Executive Officer**

So here is what I would say I actually have amazing respect for Mark.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

You do?

## **Brookfield**

### **Bruce Flatt, Brookfield, Chief Executive Officer**

At this point, I disagree, slightly disagree and that I think everyone today is like that Mark's view is that I think they're thinking rates are going to be too high. That number, they're going to be lower than that like we haven't changed so much because everyone just projects it to – they take it today and then they say, "Wow, interest rates could be 10." And I think he rates a little bit high. But all of them, even if he's exactly right even if he's exactly right, we're on – we're still in a low-ish rate.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

But it's probably good for your business to play it like that – underestimate.

### **Bruce Flatt, Brookfield, Chief Executive Officer**

Our business works unbelievably well at those rates, especially when you have some inflation. What's really good – 90% of the things we have are positively disposed to inflation. Either contractually, you get it with CPI adjustments, either through contract or by something, you get it. And real estate, eventually, it costs more to build everything, and therefore, to build a new building, you're going to have to pay more and you get it back. So low-ish interest rates, whether it's Mark's 5% on the back end or my 4.5% or 4%, 3.5%.

### **Mark Carney, Brookfield, Vice Chair & Head of Transition**

Was it really worth disagreeing? –50 basis points, don't let 50 basis points come between us..

### **Bruce Flatt, Brookfield, Chief Executive Officer**

It's a good environment.

### **Amanda Lang, Business Journalist, BNN Bloomberg**

We really don't have time. We're going to look out here and ask is there anybody who has a quick question before we are actually out of time. So I'm glad you don't actually – with apologies. And that is all of the time we have. I could go on, but I'm not allowed. Thank you both for that. Mark and Bruce, a round of applause, please.