

### TRANSCRIPT: Q2 2023 CONFERENCE CALL / WEBCAST

August 10, 2023 at 10.00 am (ET)

#### Corporate Speakers:

Angela Yulo, *Vice President*

Bruce Flatt, *Chief Executive Officer*

Nick Goodman, *President*

Jon Bayer, *Managing Partner, Insurance Solutions*

## PRESENTATION

### Operator

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Hello, and welcome to the Brookfield Corporation Second Quarter 2023 Conference Call and Webcast. (Operator Instructions)

I would now like to hand the conference call over to our first speaker, Ms. Angela Yulo, Vice President. Please go ahead.

### Angela Yulo, *Vice President*

Thank you, operator and good morning. Welcome to Brookfield Corporation's Second Quarter 2023 Conference Call. On the call today are Bruce Flatt, our Chief Executive Officer, Nick Goodman, President of Brookfield Corporation, and Jon Bayer, Managing Partner of our Insurance Solutions business.

Bruce will start off by getting a business update followed by Nick who will discuss our financial and operating results for the quarter. And finally, Jon will give an update on our insurance solutions business. After our formal comments, we will turn the call over to the Operator and take analyst questions. In order to accommodate all those that want to ask questions, we ask that you refrain from asking more than two questions. I would like to remind you that in today's comments, including in responding to questions and discussing 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 law. These statements reflect predictions of future events and trends and do not relate to historic events. They are subjected 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 your 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, Chief Executive Officer**

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Thank you, Angela and welcome everyone on the call. We had a strong second quarter and first half of 2023 with our business performing well and generating strong cash flows. Nick will talk about this, but distributable earnings for realizations were a billion dollars in the quarter and \$4.3 billion for the last 12 months, up 21% year over year on a comparable basis. Before I turn to a few business items, I'll make a few comments just on the market. The global economy has been very resilient during the first six months of '23 on the back of strong labor market and healthy corporate and household balance sheets. There were periods of volatility. But the resolution of the U.S. debt ceiling negotiations and the subsiding of the challenges for a few of the regional banks seems to have settled markets. The increase in short term interest rates is lowering inflation and slowing the economy, particularly in the U.S.

And so, as we look ahead, it seems likely that central banks will keep rates in their current range for a while. And so, we are reaching the end of the hiking cycles. And then they will lower them as conditions dictate.

With that backdrop, equity markets have been on a strong run of late and credit spreads for high quality borrowers have compressed back to early 2022 levels. Having said that, overall credit conditions remain relatively tight for many. And this is where our premier players like us stand to benefit.

Despite this more challenging environment, we were able to demonstrate what makes us different. We continue to access significant sums of capital in the first half to fund growth across multiple levels of the organization. We execute on number of monetizations showing that there is significant demand for high quality, cash generating assets that we own. And we delivered another strong quarter of operating results supported by underlying fundamentals across our businesses.

As an example, as an overall sponsor, we completed more financings than any other group to date this year. This is because of the quality of the businesses we own, our relatively low leverage levels and our sponsorship. Our Manager had a very strong quarter for the start of the year, delivering 16% growth in fee-related earnings excluding performance fees with a positive outlook for fundraising for the rest of 2023. I note a couple of things, which includes our latest flagship infrastructure private fund, which now stands at \$27 billion, which is the largest drawdown infrastructure fund ever raised and is one of the largest private funds of any type ever completed.

In addition, for our third infrastructure debt fund, we have raised over \$4 billion with more capital to come. Which all together when combined with our insurance flows, puts us on track to raise a record of upwards of \$150 billion of capital in 2023. Our Insurance Solutions business is delivering strong results as we continue to increase the investment returns on our approximately \$45 billion and growing float of insurance assets. During the quarter, we announced the acquisition of American Equity Life, which is one of the largest independent annuity platforms in the U.S. The transaction grows our insurance business to over \$100 billion of assets, and we'll be highly additive to overall Brookfield. Jon Bayer is with us today and will cover our insurance business in more detail later in the call.

## Brookfield

Third, our operating businesses continue to perform well and demonstrate their resilience, generating strong and growing cash flows, that compound their intrinsic value. We also had a very active first half of '23 on monetizations, where we transacted on approximately \$15 billion of assets sales, which bring our total monetization over the last 12 months to \$30 billion. Just a few examples. We sold a high-quality portfolio of office campuses in India for \$1.4 billion, returning nearly four times our capital. I might note that high-quality, well-located office assets around the world continue to be attractive investments and trade at premium values. We sold our 50% ownership of our mobile network operator in New Zealand, generating an IRR of over 30% and a multiple, just over two and a half times in four years. We monetized a portion of our U.S. gas pipeline with an IRR of over 18% and a multiple of three times. We also sold wind and solar assets in Uruguay, a toll road in India, a freehold port in Australia, and some gas storage assets in the U.S. The diversity of this portfolio gives it resilience.

These recent sales were executed at levels in line with or higher than IFRS carrying values, providing strong support for accrued unrealized carried interest and potential future carry, which Nick will touch on in his remarks.

Before I hand the call off to Nick, I'll make a few brief comments on our wholly owned real estate business. Yesterday on our Manager call, we spoke on some of the opportunities for our Manager to put money to work for clients in our funds. I will not repeat these. But at Brookfield Corporation, we own an extremely high quality, global portfolio of office, residential, retail and mixed-use assets. What distinguishes this portfolio is its quality, and that it is owned with perpetual equity capital and backed by our vast liquidity and strong access to capital. As a consequence, our short and medium-term focus is on optimizing our assets and growing cash flows. We care less about the perceived short-term movements in price, and we are focusing on our best and making our best even better. We are undoubtedly in a period of change for some real estate owners or assets that were not prepared for higher interest rates or those who have that have not been able to keep the real estate relevant to the end consumer will undoubtedly feel some pain.

On the other hand, great real estate is still great and in fact will be a beneficiary of the current environment as it captures increasing demand for quality real estate and also the real increases in cash flow. What we own does generally not compete with commodity office, commodity retail or mixed-use market. Over time, great assets deliver very compelling inflation protected returns. Interest rates go up once, but the rental rates can go up for very, very long periods of time. We expect to push through this current environment and be in a very powerful position as we emerge from this cycle. In the meantime, we expect to see some excellent opportunities to acquire more real estate on a deep value basis through our funds from those owners without permanent capital, equity capital are those without capital structures that can withstand this environment.

Finally, and relating to overall Brookfield, we continue to see that our scale perpetual capital, our global operations, our deep investment and operating expertise puts us in a very strong position. We remain focused on delivering for you on our goal of building one of the world's largest pools of discretionary capital, because we believe that doing so will enable our clients and shareholders to earn strong returns over the long term in what we do, scale matters. Before I pass it over to Nick, I will mention that we all look forward to seeing many of you at our investor day, which is on September 12th in New York, additional details are available on the website. And thank you for your continued support and interest in Brookfield.

And with that, I'll turn it over to Nick.

### **Nick Goodman, *President***

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Thank you, Bruce. And good morning, everyone. As Bruce mentioned financial results were very strong in the second quarter, as our franchise continues to showcase its significant competitive advantages. Distributable earnings or DE before realizations were \$1 billion for the quarter, and \$4.3 billion over the last 12 months. That's up 21% over the past year, adjusting for the distribution of 25% of our Manager last December. Total DE was \$1.2 billion for the quarter, \$5.2 billion over the last 12 months, with net income of \$1.5 billion and \$2.7 billion over those respective periods. Both DE and net income benefited from strong financial performance and the resilient nature of our underlying businesses.

Focusing first on operating performance, our asset management business delivered another quarter of strong results, with distributable earnings of \$604 million in the quarter and \$2.7 billion over the past year. Strong fundraising and significant capital deployment drove growth and fee-related earnings of 16% compared to last year, excluding performance fees. Fundraising momentum remains strong, with inflows of \$37 billion to date this year and \$74 billion over the past 12 months. We expect to reach over \$100 billion of institutional and private wealth fundraising, which when combined with insurance inflows, we should raise a record of close to \$150 billion of capital in 2023. And this should drive meaningful earnings growth in 2024 and beyond.

The growth of our Insurance Solutions business continues to accelerate. The business generated distributable operating earnings of \$160 million in the quarter and \$634 million over the last 12 months. That's significantly higher than the comparative periods. The substantial growth in earnings has been driven by our ability to grow our insurance asset base, and to use our deep investment expertise, particularly in credit to expand our spread earnings.

During the quarter, our insurance business originated over \$3 billion of annuity premiums and redeployed approximately \$1.5 billion of assets at an average yield in excess of 8%, expanding the earnings on our investment portfolio by 20 basis points. Today, we earn 5.4% on approximately \$45 billion of assets, which is now about 220 basis points higher than average cost of capital. Annualized earnings for the business today are now approximately \$725 million. And we are confident that this will grow to \$800 million by the end of the year.

Jon will speak to our Insurance Solutions business in more detail, but it is important to emphasize that with the expected closing of AEL and our goal, we anticipate a further step change in earnings from this business, initially adding over \$500 million per year. But these earnings will grow as we optimize the investment portfolio, increasing annualized earnings from our insurance business towards approximately \$2 billion.

Our operating businesses continue to generate stable and recurring cash flows. Distributions for operating businesses are \$397 million in the quarter and \$1.5 billion over the last 12 months. Stable and growing cash distributions from our renewable power in transition and infrastructure businesses are supported by the 23% increase in operating funds from operations over the last 12 months. Our private equity business continues to deliver resilient earnings with 15% growth in

## Brookfield

adjusted EBITDA over the prior year. And our real estate business continues to deliver strong net operating income or NOI benefiting from high demand amongst tenants for our premium properties. Our core portfolio is 96% leased and through active leasing along with rental growth, NOI from the portfolio increased by 8%. And I'm going to mention that a second time for emphasis, NOI for the core portfolio increased by 8% compared to the prior year.

On the retail side, sales have record highs in 2022. And leasing spreads are up over 15% year over year so far this year. In our office portfolio, our leasing activity and pipeline are robust, with over 1.2 million square feet of leasing activity completing in the last quarter, at rents higher than those expiring. A few examples of our leasing activity includes a lease for 340,000 square feet in Denver, 230,000 square feet across Houston and Washington D.C., 340,000 square feet in Toronto in New York, almost 100,000 square feet in London. And we are 99% full in South Korea, Dubai, and Sao Paulo and leasing is very strong in Shanghai and Sydney. All these are leased at strong rents, and we have a solid pipeline for the rest of the year.

Also important for this business is that we continue to have strong access to the capital markets, to finance our high-quality real estate. Despite relatively tight credit conditions for some, we have successfully refinanced or extended all maturities for our real estate business so far this year, and we are well progressed in all remaining maturities this year with no expected material liquidity at the events.

Bruce touched on monetization activity earlier. However, it is important to note that almost all of these recent sales are transacted at values higher than our carrying values, providing strong support for our balance sheet values. And the significant carried interest of more than \$20 billion that we project to realize over the next 10 years. Over the last 12 months we've generated \$1.9 billion of unrealized carried interest, increasing our total accumulated unrealized carried interest to \$9.5 billion, with \$8.4 billion of that directly owned by the Corporation. And we continue to see a path to realize over \$500 million of realized carried interest net into income this year.

Turning to capital allocation, we continue to weigh the use of our cash flow and excess capital between opportunistically buying back shares and executing on the exceptional investment opportunities that we see ahead. During the quarter, and over the last 12 months we've reinvested \$1.7 billion and \$5.4 billion respectively, of cash back into the business supporting various accretive growth initiatives. We also returned at \$146 million to shareholders through regular dividends and share repurchases during the quarter, taking the total capital return to shareholders over the last 12 months to \$14 billion, inclusive of our special distribution of BAM shares last December.

Moving on to liquidity and the capital markets, we continue to see the strength of our conservatively financed balance sheet, high levels of liquidity and access to deep pools of public and private capital across our organization as significant competitive advantages for our business. And with capital harder to obtain for most those advantages differentiate us now more than ever. We we're very active in the first half of 2023, netting acquisitions of more than \$50 billion. Our ability to execute at this scale is in large part due to our high levels of liquidity and strong access to capital from multiple sources across the organization. Today, our access to capital is distinctive and multifaceted.

## Brookfield

At the corporate level, our goal was always to maintain significant liquidity in the form of cash, financial assets and undrawn corporate credit facilities, which today stands at \$5 billion. In addition, we have a further \$60 billion of liquid securities against our nearly \$140 billion of capital, we borrow only a modest amount of long duration corporate debt backed by our A rating. And we have no significant maturities at the corporate level for the next couple of years as we recently raised \$550 million of tenure bonds well in advance of a maturity next year.

Second, each of our operating businesses are self-funding with deep access to public and private pools of capital, and in almost all circumstances do not rely on financial support from our balance sheet. Despite more challenging access to capital for many, our operating businesses continue to have strong access to public and private pools of capital at scale that few others can access today. And the last few months, our operating businesses have raised over \$20 billion with both Brookfield Renewable Partners and Brookfield Infrastructure Partners, raising approximately \$2.5 billion in the aggregate of long-term corporate debt and equity in the public markets on the back of this significant growth pipeline they're executing on.

In private equity, we have completed approximately \$5 billion of refinancings across four companies in just the last three weeks. And our real estate business continues to finance and refinance its global portfolio of assets.

Lastly, our asset management business continues to raise a significant amount of capital with \$74 billion of inflows in the last 12 months, and over \$80 billion uncalled private fund commitments to date. This large amount of long duration third party capital, in conjunction with co-investment capital that we can raise, given our deep relationships with some of the world's most sophisticated institutional partners gives us in our operating businesses, a significant scale advantage to execute on transactions. Bringing it all together, each part of our business has strong access to capital on their own. But when combined, the scale of what we can achieve is significantly greater.

Increasingly, we're seeing that the combination of the scale and perpetual capital base of the corporation, the flexible capital of Brookfield Reinsurance, and the deep investment capabilities of our Manager, make our franchise different and positioned as well to continue to deliver growth and creates significant value for you over the long run.

With that, I am pleased to confirm that our Board of Directors has declared a quarterly dividend of \$0.07 per share payable at the end of September to shareholders of record at the close of business on August 31, 2023.

Thank you for your time and I'll pass the call over to Jon.

### **Jon Bayer, *Managing Partner, Insurance Solutions***

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Thank you, Nick. And good morning, everyone. I'm pleased to join the call today to provide an update on our insurance solutions business, Brookfield Reinsurance.

Since we first introduced Brookfield Reinsurance in late 2020, we have significantly scaled the business, becoming a leading provider of insurance and reinsurance solutions to both institutions and individuals. Insurance is a natural fit for Brookfield and our success to date gives us conviction that it will be a significant contributor to the growth of Brookfield for years to come. Our focus in

## Brookfield

scaling the business has been twofold. First, we look to originate or acquire simple and predictable insurance liabilities that have minimal liquidity risks that are typically long duration and that we can underwrite well. Second, that the investments backing these liabilities can be deployed in part into Brookfield Asset Management's best in class investment platform. We thereby are able to earn attractive risk adjusted returns in excess of the cost of the underlying insurance liabilities.

Our ability to leverage the Brookfield Asset Management platform with its long track record investing in credit and real assets gives us strong conviction that we can earn best in class yields benefiting our policyholders while delivering strong returns on our invested capital. BAM's investment strategies are well suited to insurance capital and in fact, over 200 insurance companies are institutional clients of BAM today, investing in a broad range of products.

As we grow our insurance assets through Brookfield Reinsurance's permanent capital balance sheet, we can also be a contributor of growth for BAM, providing AUM and fee bearing capital inflows and capital to seed new investment strategies increasing fee revenues. This is in addition to delivering stable recurring spread earnings to Brookfield Corporation through its balance sheet investment in Brookfield Reinsurance.

Over the past three years, we have made significant strides on executing on our long-term plans, accumulating scale across a diversified set of insurance lines. We established a U.S. operating platform through the acquisition of American national and now have the ability to directly originate premiums across life, annuity and property casualty product lines. We have closed on over \$15 billion of block annuity reinsurance and pension risk transfer transactions. We entered into an agreement to acquire Argo Group, a leading U.S. specialty P&C platform, which we expect to close shortly, and recently announced an agreement to acquire the remaining shares of American Equity Life or AEL that we don't own today.

This represents approximately \$50 billion of assets, backing insurance liabilities within our insurance operations, which will grow to \$100 billion after the close of the AEL transaction. When executing on our plan for these operations, we seek to do three things, prudently grow assets, increase investment yields, and manage risks appropriately. As an example, we closed on the acquisition of American National just over a year ago. At that time, the business was originating just over a \$1 billion of annuities annually, had an investment portfolio earning less than 4% and generated a mid-single digit return on its equity.

Since closing, we've been focused on delivering on the strategic initiatives laid out in our underwriting and have made tremendous progress. We scaled retail annuity sales to \$4.5 billion annually. We redeployed over \$7 billion of the asset portfolio into Brookfield and Oaktree originated and managed opportunities, increasing the portfolio wide investment yield to approaching 6%, and now generating double digit returns on our equity. We executed on an inaugural senior bond offering giving American National direct access to public debt markets.

And finally, we strategically exited a number of non-core lines of business, reducing the risk profile the insurance liabilities and driving a more capital efficient structure. With a demonstrated track record, we're now looking to replicate the success on a larger scale with AEL. In 2020, we entered into a strategic partnership with AEL, whereby we became a 20% equity owner of AEL's common equity and entered into agreement to reinsure \$10 billion of its fixed indexed annuity products, providing capital for the business to execute on its strategic plans.

## Brookfield

We recently announced an agreement to acquire the remaining shares of the company at \$55 per share, which values the company at approximately \$4 billion. AEL is a pure play U.S. annuity writer, with \$5 billion+ in sales perennially ranking in the top five to seven in fixed indexed annuities. AEL benefits from best-in-class product development, distribution, and administration and a valuable brand name. Its business is highly complementary to our existing U.S. platform. And once the transaction is complete, we will seek to leverage AEL's platform to expand new business capabilities growing Brookfield Reinsurance to a top five annuity writer with the ability to generate over \$10 billion of new sales annually and up to \$15 billion annually over time.

In addition to the \$50 billion of AEL assets, we plan to have managed by Brookfield Asset Management upon close, the growth in our sales origination will drive further inflows to BAM and as the acquired assets are redeployed into higher yielding strategies should contribute meaningfully to spread earnings for Brookfield Corporation's, distributable earnings. Today, AEL generates approximately \$400 million of annual operating earnings and approximately a 4% investment portfolio yield, which we expect to grow significantly as we reposition the portfolio.

The AEL transaction is a great example of how Brookfield's strong balance sheet, superior asset management capabilities and flexible insurance capital together drives value that few other firms can replicate. The consideration to AEL shareholders will be funded through a combination of existing capital within Brookfield Reinsurance and the Corporation as well as through BAM shares. The use of our BAM shares as currency in the transaction will increase the public float and liquidity of BAM without diluting any existing shareholders across BAM, the Corporation for Brookfield Reinsurance.

Once the acquisitions of AEL and Argo Group have closed, we will have deployed approximately \$10 billion of insurance capital inclusive of excess capital acquired today. Our total managed insurance assets will be over \$100 billion on track with our growth targets and should contribute around \$200 million in investment management fee revenues to BAM annually with additional fee revenues contributed over time as a portion of the portfolio of assets is redeployed into our Brookfield private funds strategies. To date we have committed over \$7 billion to Brookfield fund strategies, and over time, expect approximately 40% of our portfolio to be allocated to these strategies.

Through BAM's management of our assets, we expect to earn 200 basis points of spread income relative to our cost of insurance liabilities. Thus, we expect to generate approximately \$2 billion of distributable earnings annually on our \$100 billion of assets or 20% returns on our capital deployed, positioning Brookfield Reinsurance as a cornerstone contributor to Brookfield Corporation's next stage of growth. We look forward to providing you a further update on our insurance solutions business when we meet in September in New York for Brookfield's Investor Day.

With that, I will hand the call back over to the Operator for questions.

## QUESTIONS AND ANSWERS

### Operator

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[Operator Instructions] Our first question comes from the line of Geoff Kwan with RBC Capital Markets.

### Geoff Kwan, *Analyst, RBC Capital Markets*

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Hi, good morning. My first question was just on the real estate side. FFO, was it looks like essentially flat quarter of a quarter. Do you think we've seen some stabilization in the FFO real estate side? And then also, approximately, when do you think the FFO will increase to a level that essentially kind of matches what the quarterly distribution to be in?

### Nick Goodman, *President*

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Hey Geoff, its Nick. You're right, the FFO is broadly flat, slightly up for the Core and T&D, which I think is the focus. If you look at the Core asset, obviously, we highlight the 8% growth in NOI because that is the best reflection of the true underlying performance of the business and it's performing exceptionally well. The other major contributor to FFO is disposition gains from our private funds, which has historically been a contributor. And that will ramp back up with transactional activity which we expect to return fairly soon. And I think as you see, continued growth in NOI, as Bruce said interest rate move has happened, and if anything, rates are flattening to hopefully coming down from here.

And so, I think as you see the NOI continues to grow and transaction to really ramp up, and you'll start to see that FFO improve. But over the medium term, we fully expect that FFO to be back to the distribution level. And in the meantime, we have the balance sheet and liquidity to support the dividend.

### Geoff Kwan, *Analyst, RBC Capital Markets*

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Okay. When you kind of say medium term is that maybe like a couple of years type of thing?

### Nick Goodman, *President*

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It really depends. But one to two years, sure, maybe a couple of years. It is really dependent on those two variables.

### Geoff Kwan, *Analyst, RBC Capital Markets*

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Okay, no, that's fine. I just want to make sure I understand that. And then my second question was, is you mentioned on last quarter's earnings call that if you were to do a substantial issuer bid, you'd most likely want to do some sort of monetization to help finance it. Given the discount to NAV still remains very wide. Just wondering if you have an update on, appetite to potentially do the substantial issuer bid, in addition to the normal share buybacks that you've been doing, and I know that there's some insider buying that also came out post Q1 results.

### Nick Goodman, *President*

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## Brookfield

Listen, I think yes, we continue to believe that the share price is trading at a significant discount to valuation. I think at the same time, we've always said that we are patient because we believe that the hardest thing to do is to create value and drive cash flow growth in the business which we are doing and executing. And so, we take a step back and look at uses of the cash and recycling of capital. We're patient, we're also seeing excellent investment opportunities across the organization, which is why in the period, maybe buybacks were a bit lower than last quarter. But we've still done \$300-350 million of buybacks to date this year on track for \$550 million. And that can grow to the rest of the year.

So, we're still very active in the buybacks. And I think the issuer bid is something that we are always paying attention to. And if we think it makes sense, we will. But I think at the same time will be patient.

### Operator

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Our next question comes from the line of Mario Saric with Scotiabank. Your line is now open.

### Mario Saric, Analyst, Scotiabank

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Thank you. Good morning. And just maybe dovetailing on the last question in terms of capital allocation. Nick, when you think about allocating on an order the free cash flow at the BN level, how would you rank kind of the risk adjusted attractiveness of real estate debt repayment, insurance growth, share buybacks, seed capital and new niche fund products, or co-investments in flagship funds today. What looks better on the margin?

### Nick Goodman, President

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I mean, I think to be honest, we do a bit of everything every year, Mario. But I think, you've heard Jon from large strategic acquisitions, most of our capital in the last 12 months has been going to support the standup of the insurance business. And today that's delivering outstanding returns. So obviously, that's been very attractive.

At the same time, we have the ability to invest into the private funds, we see the opportunities coming out of private equity, they're all generating returns. I think, as we've said before, it's not just about the returns, it's also about the strategic value that that capital deployment brings to the organization. And insurance has brought more than just a return on our equity. It's been able to stand and up and grow strategies in the credit franchise, supporting and investing into the private funds, gives great returns and great strategic value.

So, I just say it's a balance of them all. And our real estate business continues to have really strong access to capital. So, as we're refinancing, there aren't any significant liquidity requirements to extend and refinance what we have maturing.

### Mario Saric, Analyst, Scotiabank

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Okay. And just to follow up on that last point on the real estate financing side, sounds like 2023 is reasonable, when you look at it 2024, are there any concerns about equity injections in the refinancing denier?

### Nick Goodman, President

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## Brookfield

No, I would say there's not. And I think it's important to remember that if you look at the disclosure we have on Core and T&D, the leverage at the asset level is fairly conservative. And I think as we've worked through financings this year, we find that most of the older financings have been able to be refinanced, we expect the same next year. That's not to say there's not a few isolated situations we deal with. But I would say that none of those in any way are material to equity, that's very important to remember. And everything is non-recourse. But I say as we look out to 2024, we don't expect any significant liquidity events associated with re-financings.

### Operator

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Our next question comes from the line of Cherilyn Radbourne with TD Cowen.

### Cherilyn Radbourne, *Analyst*, TD Cowen

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Thanks very much. And good morning. I've got a couple of questions that pick up on the deep dive that you provided on insurance. Firstly, you articulated that the acquisition of AEL is expected to substantially increase your organic origination capabilities. So, I wondered if you could speak to the expected mix of organic versus inorganic growth to get from \$100 billion to \$225 billion, and the relative attractiveness on the inorganic side of block transactions versus pension risk transfer versus M&A. Just given the current macro backdrop?

### Jon Bayer, *President*, Insurance Solutions

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Yes, hi, this is Jon. So, all good points, I think we are extremely excited about our pending acquisitions, as a means to really establish our franchise as a really a direct originator of high-quality insurance liabilities, and certainly it is the case without commenting on a lot of the specifics. But I think the AEL platform is going to be highly complementary and additive to what we do. It allows you in a sense to control your own destiny a bit more, as opposed to the some of the larger block deals that are out there where you're really in much more of an M&A competitive environment with brokers and intermediaries and auction processes and so forth.

Pension risk transfer, very compelling market opportunity for us, I think, because you've followed us, the initial foray of Brookfield Reinsurance was, in fact, in Canadian PRT, which has been an incredibly successful business for us to date. We have invested in the U.S. and American National establishing a direct U.S. PRT business, which has gotten great traction in the market. It's early days, still relatively small, but great traction there. And we expect to grow on that institutional side of the business, if you will, fairly, actively in the years ahead. So maybe that's where I would leave it in terms of your question.

### Cherilyn Radbourne, *Analyst*, TD Securities

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And then just as a follow up, does the \$225 billion target contemplate international growth? Or do you think you can get there in North America alone? And maybe with that, you could speak to some of the relevant differences associated with international market?

### Jon Bayer, *President*, Insurance Solutions

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Certainly, a big question. But let me just phrase it as follows. I don't think our growth ambitions are contingent upon international expansion. Having said that we have begun to assess as others have in both Western Europe as well as Asia, in assessing market opportunities there. Predominantly of the reinsurance variety. So whereby we would reinsure stable, well priced liabilities there.

## Brookfield

But having said that, I think given the momentum we have right now, in the acquisitions we're making in the U.S., and the organic story that we've got here. That's our primary focus at this moment in time.

### Operator

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Our next question comes from the line of Andrew Kuske with Credit Suisse. Your line is now open.

### Andrew Kuske, *Analyst, Credit Suisse*

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All right. Thank you. Good morning, I guess the question is probably targeted towards Bruce. And, given your excitement in the real estate space, and just the duration, you've been invested in that asset class. There's an interesting transactional mark with 245 Park Avenue recently a building that you actually owned quite some time ago. But maybe if you could give us some context on that specific transaction, and then also just how you think about the current environment, maybe relative to some past episodes, whether it's the early '90s recession, following 9/11, financial crisis and COVID.

### Bruce Flatt, *Chief Executive Officer*

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Yes. So, look, I would say just a couple of comments on that is that the real estate environment today for 80% of real estate, actually, the fundamentals are quite strong. Industrial is good, multifamily is good fundamentals on the asset side. Retail is good, premium office is good, international is good. In fact, office, generally even traditional commodity office is pretty good internationally. So, if you go to most countries, the world, the real outlier, for fundamentals is either retail in the U.S. on the lower end or lower end office, which we don't really participate in. But people lump everything all into one bucket.

So, there's probably 20% of the fundamentals is that way. And I would say, for the 80% of real estate in the business that we participate in, fundamentals are actually really good and have probably never been better in a cycle like this. They were way worse in 2009, they were way worse in 1993, I forget '98. Anyway, when you go through, they're actually pretty good on the fundamental side.

The one issue today, which I think is not any different than other times, it just always feels the worst is that credit markets 18 months ago started to tighten, they were very tight 12 months ago, three months ago, three to six months ago, they started to loosen up. And that's when everyone figured out that they were tight. But as Nick said, good sponsors are now able to roll financing and to get financing done. So, I actually think for good real estate with good sponsors, you're going to be fine. If you have poor real estate, and you have weak ends as an owner, you will have a problem.

But I'd say this, that that therein lies some of the opportunity is in that -- in those situations, where you have residential apartments that were 80%, financed, bought at low cap rate, there will be an excellent opportunity for us over the next 12, 18 months.

### Andrew Kuske, *Analyst, Credit Suisse*

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## Brookfield

Appreciate that color. And then maybe just following on and diving into the Supplemental. If I look at your BSREP funds, just sort of broadly, your gross IRR is versus your net. It seems like an all the successor funds, you basically have a bit of a widening spread, implying that you're doing better as the fund sort of scale in size and better monetization. So, we're taking your first set of comments, is the expectation that this is just a prime investing period for real estate that has potential for outsized returns, as you've seen in some of the past cycles.

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

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Yes, look, I think our fund series is have been around since the early 2000s. And I would say this vintage right now that we – we're out, we get on our fifth fund for that opportunistic series. And I suspect the returns will be maybe the best we've ever had. It should be a very good vintage.

### **Operator**

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Our next question comes from the line of Ken Worthington with JP Morgan. Your line is now open.

### **Ken Worthington, Analyst, JP Morgan**

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Hi, good morning, and thanks for taking the questions. I have sort of two on insurance. So, we've highlighted that Brookfield wants to build the insurance business to \$225 billion, sort of tripling the assets post, the close of AEL. Apollo said, or suggested, that building an annuity portfolio like Athene would be challenging in the current rate environment. And given that consolidation has already taken place in the sector. How do you see the opportunity set in annuity? And can you make the insurance strategy work as well in other parts of life or property casualty, as you can in annuity? And like, ultimately, what are the risks here if you allocate more of that \$225 billion to P&C, and in other parts of life? Is that something that you think about, or we should spend more time thinking about?

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

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So, the guys will, it's Bruce, the guys will maybe give you some detailed comments. The only thing I was going to say is we started into the insurance business at the time when we started into it, because interest rates were 0%. And we found it to be a very compelling time to start with winds behind our back. Today, we're at \$100 billion. If you just take \$10, \$15 billion of annuities we write every year, that gets it to \$175 billion, which means we could add over the next five years \$25 billion and block and \$25 billion in PRT, which would get to the \$225 billion.

So, the \$225 billion is a pretty small number and doesn't take any Herculean effort to get there. I won't tell our insurance guys that. I guess I just did. But it shouldn't be that big of an effort to get there. The question is, do we want to go past \$225 billion and how do we do that? And I think to get there, what we're going to need to do is be doing internationally. And – but the good news is, we got on this and built it at the right time.

### **Ken Worthington, Analyst, JP Morgan**

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Great. Okay. Then maybe just sort of continue on the insurance side. You highlighted again, just now, the being a top three annuity provider being able to originate \$10 to \$15 billion of policies annually. I'm trying to get a sense of the sort of the net growth rate here, I assume that \$10 to \$15 billion is a gross figure, maybe that's wrong. But what sort of gross attrition should we expect, sort of annually out of the insurance business? And what ultimately is the net growth rate?

## Brookfield

### **Jon Bayer, *Managing Partner, Insurance Solutions***

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Yes, look, it's Jon, I think I'd be -- I can speak to our operations. And, right now, our net growth is fairly strong. We are in growth mode. And so, we're coming off of a relatively small base for the next several years. You can imagine, right now, our run rate sort of low \$1 billion in terms of outflows versus this year, we're going to do around \$4.5 billion of annuities sales gross.

So that gives you some sense of the net growth within American National. And I'm going to refrain from commenting on other companies just because of, pending acquisitions.

### **Operator**

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Thank you. Our last question comes from the line of Sohrab Movahedi with BMO Capital Markets. Your line is now open.

### **Sohrab Movahedi, *Analyst, BMO Capital Markets***

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Okay, thank you for taking my questions. Nick, first for you. What's your hypothesis as to why the market perception of value is so different than management's perception of intrinsic value?

### **Nick Goodman, *President***

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Yes, how long have you got? And maybe Bruce can add on to this, but I think if you look at our business today, Sohrab, as I said, at the start, if you look at the earnings, power of this business, and what we've achieved in the last 12 months, I'm not sure there's many out there in our industry that are, consistently delivering this kind of earnings growth. And so, I think the business is performing incredibly well. And that's what we primarily focus on.

I think there's different parts of the business that are not attracting value right now. And I think for insurance, it's on us to show you what the path to growth is, how through premium returns this business deserves a premium valuation. And I think we'll lay that out for people, and it started I think, on the carried interest with the lack of transaction activity. It doesn't attract the valuation but you can see that the transactions that we're executing the sales that we're delivering, and that provides some stamp on the accrue, the accumulated unrealized. And the potential \$20 billion of carried interest that we would be realizing over the next 5 to 10 years if we just meet our target return. And our funds do no more, that is cash that is going to turn up. It's just a question of when, and then you have the debate, obviously, on real estate, but I think all we can do right now is just focus on executing.

And I think, as we get to the point, Bruce touched on this, if you get to the point where rates start to plateau, and start to come back down, we're seeing liquidity returned to the market, we're seeing spreads tighten. And I think when you see transaction activity return, then I think you'll start to see people see and appreciate the value that we have embedded in the business.

Bruce, I don't know if you have anything to add? No, we're good.

### **Sohrab Movahedi, *Analyst, BMO Capital Markets***

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## Brookfield

My second question for you, Nick, is that there's talk of Bermuda introducing the corporate income tax. What does that mean, if anything for your group of companies?

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### **Nick Goodman, *President***

The impact is minimal to zero, Sohrab, all of our businesses, our operating businesses are domestically domiciled in the country, they do business, and they pay local tax. So, the global minimum tax would already be impacting in those jurisdictions for all of our businesses, and it shouldn't have any significant impact at all on the business.

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### **Sohrab Movahedi, *Analyst, BMO Capital Markets***

Nothing specific to the insurance initiative?

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### **Nick Goodman, *President***

Now, listen, insurance, we were building a U.S. Canadian business right now. But with a global outlook, and we just felt that operationally Bermuda is a good place to be and has a globally respected regulator. And we think that with other international businesses, and we think operationally that's a good place to be, but from a tax perspective, no impact. All our business does are Canadian and U.S. domiciled, Canadian and U.S. tax, so no impact.

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### **Operator**

Thank you. I will now hand the conference back over to Angela Yulo for closing remarks.

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### **Angela Yulo, *Vice President***

Before we end the call, as Bruce mentioned, we look forward to seeing many of you at our Investor Day, which will be held on September 12 in New York.

And with that, we'll end the call. Thank you for joining us.

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### **Operator**

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