

# Brookfield Corporation Shareholders

## Overview

With the listing of our asset manager now complete, going forward we plan to write quarterly letters that will cover the strategic initiatives and highlights of Brookfield Corporation. We will also publish shorter quarterly letters for our asset manager covering the details of its operations, as we do for our listed affiliates and private funds.

2022 was a strong year for Brookfield despite the challenging market environment. We had a record year for fundraising, strong operating results, excellent performance from our insurance operations, and we concluded the distribution of 25% of our asset management business to shareholders.

While a recession is likely taking place in many parts of the world, we are now investing our resources with an eye on a recovery later this year or in 2024. Alternative investments have shown their incredible resilience during this period and are benefiting from the higher level of inflation than we have seen for decades. The combination of approximately \$125 billion of capital available for investment, our perpetual funding structures, our global business presence, and our emphasis on value investments positions us well for this environment.

With our asset manager now trading separately and set on its own path, Brookfield Corporation is focused on allocating and deploying its capital to maximize the value of our balance sheet. With a net asset value per share which we estimate to be vastly higher than our share price, we expect to continue to use our cash resources to repurchase shares in the market. If the discount persists, we will also consider other options, including a tender offer. At the same time, we continue to look at new areas for investment that will earn us excellent returns and strategically position Brookfield for the future. With markets trading off and capital scarce, the odds favor us finding something interesting.

## Stock Market Performance

Our underlying business performance was excellent in 2022, but like everything else, Brookfield Corporation stock performance was far from good. In addition to the general market malaise, the distribution of shares of our asset manager caused some short-term pressure on Brookfield Corporation’s shares. This has started to clear, and the underlying value of the business continues to compound away. Our performance has been strong on a longer-term basis, and we think this should continue. Results are shown in the chart below on a compound return basis to the end of last month.

### Compound Investment Performance of Brookfield Corporation

Years	Value of \$1 Million Invested in BN	BN NYSE	S&P 500	10-Year U.S. Treasuries
	\$	%	%	%
1	880,000	(12)	(7)	(10)
5	1,900,000	14	9	1
10	4,100,000	15	13	1
20	40,900,000	20	10	4
30	252,500,000	20	10	3

## The Market Environment

Markets were extremely volatile in 2022. Most investments were down, at least on paper, as central banks acted decisively to bring inflation under control. The good news is that the measures taken appear to have been successful in tempering demand and moderating inflation in most countries, with interest rates expected to peak soon, inflation likely to already have peaked in most places, and the onset of a recession upon us.

Global markets are now offering much better opportunities. Bond yields are higher, equities are more fairly valued, and technology company valuations are more reasonable. In addition, growth businesses and crypto that had no rational reason for trading where they did have now come back down to earth. In the midst of all of this, most alternative assets and real businesses have performed, and are expected to continue to perform, extremely well.

The overall macro environment has moved strongly in favor of how we operate at Brookfield. This should bring great opportunity for us in the next few years. In general, the world has shifted:

- from an emphasis on growth to value (we are value investors).
- from a singular focus on technology to a more rounded investment focus, including strong interest in energy (this bodes well for us in many ways).
- from low inflation to greater inflation (this is very positive for most of what we own).
- from a low level of expenditures on the backbone of the global economy to high infrastructure investment, with emphasis on decarbonization, digitalization, and deglobalization (this is our sweet spot).
- from cash earning zero to cash being valuable. Having been very conservative with our capital structure and having acquired a substantial insurance float while sitting on cash earning nothing, this has now turned in our favor (this is very powerful for our earnings and new opportunistic investments).
- from returns being generated by financial engineering to returns resulting from operational excellence (this is our specialty).

While markets are always unpredictable, we believe we are well positioned for this environment, and that we will all soon be in another period of economic growth.

## The resilience of our operating results showed this year

Distributable earnings for the full year were \$5.2 billion, with most of our businesses contributing strongly.

AS AT AND FOR THE 12 MONTHS ENDED DEC 31 (\$US MILLIONS, EXCEPT PER SHARE AMOUNTS)	2018	2019	2020	2021	2022	CAGR
Distributable Earnings (DE) before realizations	\$ 2,133	\$ 2,197	\$ 2,687	\$ 3,467	\$ 4,314	19%
Distributable Earnings – Per share	1.63	1.79	2.74	3.96	3.25	19%
– Total	2,389	2,657	4,220	6,282	5,229	22%
Gross annual run rate of fees plus target carry	2,975	5,781	6,472	7,830	9,535	34%
Total assets under management	354,736	544,896	601,983	688,138	789,489	22%

Distributable earnings before realizations were \$1.1 billion in the quarter and \$4.3 billion over the last 12 months, representing an increase of 24% over the prior year.

Our operating businesses continue to demonstrate their resilience, with strong cash generation and financial performance, despite weaker fundamentals in most major economies around the world. The essential nature of the majority of the businesses and assets that we own, the inflation linkage in their revenues, and the high cash margins they generate are proving beneficial in the current environment. Distributions from investments of \$624 million for the quarter and \$2.6 billion over the year equate to an increase of 20% versus the prior year.

Our insurance solutions business had another excellent quarter, with operating earnings of \$170 million. The business has benefited from continuing to redeploy its highly liquid and short-duration portfolio in a rising rate environment, and we believe the best is yet to come.

Our asset management business continues to benefit from strong fundraising and capital deployment. This, combined with control over costs as we scale, helped generate \$2.1 billion of fee-related earnings, representing a 26% increase when excluding performance fees versus the past year. Fundraising momentum remains solid, coming off record inflows of \$93 billion over the past 12 months and \$14 billion in the quarter, as we forge ahead with our next round of fundraising.

Although the overall market is not as robust as it was a year ago, we continue to see strong appetite for the type of high-quality, cash generating businesses and assets we own. We completed \$34 billion of monetizations at strong valuations in the year, realizing gains totaling \$1.7 billion. We recently sold a student housing business in the U.K. for \$4.5 billion, a portfolio of telecom towers in New Zealand for \$1.1 billion, and several electricity transmission lines in Brazil for \$0.8 billion; with numerous other sales processes in progress.

### **The Corporation is positioned to grow and widen its reach**

For the last 25 years we have focused on building and scaling our operating and asset management businesses, culminating in the recent distribution and separate listing of the asset manager's shares. Leveraging our large perpetual capital base, deep operating expertise, global presence, and value investing approach, we have consistently delivered strong investment performance and have grown this business into a pre-eminent and uniquely positioned global alternative asset manager.

Over this time, we have also used these same attributes to establish and grow global, market-leading businesses in renewable power (including a unique net-zero transition business), infrastructure, private equity, and real estate. We are also currently executing on our plans to build a leading global insurance business.

We have one of the largest discretionary pools of capital globally at approximately \$175 billion, and we generate  $\pm$ \$20 billion of operating cash flow annually. With no restrictions on how we use most of this capital, our sole focus is on allocating capital among our existing operating businesses and new business initiatives, with a targeted total return of 15%+ for our shareholders over the long term.

The earnings power of what we have built and own today is incredibly strong. Each business on its own generates very attractive returns, but when we leverage the synergies that exist within the broader Brookfield ecosystem, the earnings potential becomes even greater.

The organic growth levers within our existing businesses, combined with the continued allocation of capital to funds from our asset management business, should allow us to deliver strong internal growth. Over the next five years, we plan to grow our free cash flow (or distributable earnings, "DE") at a compound annual growth rate of approximately 25%, which should generate over \$30 billion of excess cash flow during that period to just our Corporation balance sheet.

Given our strong track record of investment returns from our current businesses, it is hard to look past the opportunity to invest more capital into those businesses and repurchase shares when they are undervalued. Furthermore, by fully leveraging the reach and expertise of our asset management business, our goal is to identify new investment opportunities that have both strategic value for overall Brookfield and the potential for attractive rates of return. The scale we can pursue is significant, given the various sources of capital available to us, and in this economic environment we feel it is very possible that something large and interesting will present itself, enabling us to further diversify our business and broaden our reach.

Our bar for new investments is always high since we have great existing businesses. Sometimes the bar moves even higher, given the competing opportunity to repurchase our own shares. Despite that, we will continue to seek opportunities outside our current lines of business that will likely fit into one of the following categories:

- Insurance Solutions – We see many great global opportunities to deploy capital through Brookfield Reinsurance. While this is already an established business for us, we see an opportunity to deploy excess capital to scale it further.
- Strategic Acquisitions – We come across many opportunities that are too large for any of our funds. An example of this is a \$30 billion business we came very close to merging into Brookfield Corporation 18 months ago. These opportunities will be few and far between, but when we find the next one, it could be very exciting.
- Growth – We are investing in new businesses that are adjacent to what we do well. While these investments are small today, they or others could become large investments someday. For example, we own an interest in SHEIN, an incredibly successful fast fashion business that is becoming dominant globally and which we have been able to assist in numerous ways within our franchise.
- New Businesses – We are investing as a Limited Partner in some external private funds in sectors where we do not yet have full-scale teams. In addition to the excellent returns we expect to earn, we are learning a great deal. This in turn could lead to new businesses for us.

Our individual listed infrastructure, renewable and private equity securities are excellent investments that provide exposure to specific sectors, and our recently created asset manager shares now provide direct access to our asset management business and its strong growth profile. At the same time, Brookfield Corporation shares offer a unique opportunity to own them all and benefit from the resulting synergies. They also offer a chance to be a part of our next chapter, which we are very excited about.

### **The best is yet to come for our asset management business**

Our asset management business is one of the largest and fastest-growing alternative asset managers in the world. With operations spanning more than 30 countries across five continents, we have over 2,000 professionals in our asset manager who employ a disciplined investment approach to create value across a diverse set of public and private fund offerings.

The business has grown from its infancy 25 years ago to approximately \$800 billion in assets under management and deep relationships with more than 2,000 clients, including most of the largest global institutional investors. We have a strong track record, having delivered solid investment returns for these clients over a long period of time.

The outlook for the business remains very strong, due largely to the following components of our highly differentiated strategy:

- We invest in the backbone of the global economy.
- We leverage our deep operational expertise to create value.
- Our scale and track record mean that we are a beneficiary of the capital that is increasingly gravitating to the largest multi-asset-class managers in a period of industry consolidation.
- Our business is positioned around the leading secular global drivers of capital across renewable power and transition, infrastructure, real estate, and credit.
- We are highly diversified. This enables the business to grow and deploy capital throughout economic cycles—with our credit, private equity, and real estate businesses specializing in deploying capital in markets like we are seeing today.

- We pride ourselves on both providing the highest level of service to our clients and constantly innovating to meet their needs.
- Across Brookfield, our \$175 billion of discretionary permanent capital can be invested in our funds. This is one of the benefits of our structure, and this pool of proprietary capital is unrivalled in the industry.
- The listing of our asset manager provides optionality for strategic acquisitions.

We had a record fundraising year in 2022, as we watched the benefits of our strategy play out. The successful fundraising across our flagship fund series continued, with each vintage larger than the last. Existing LP's continued to invest in the latest funds, often increasing their commitment, and a number crossed over into new strategies, deepening their relationship with us.

Our Transition Fund is also now market-leading, offering clients the opportunity to invest with us to facilitate the global transition to net zero. It saw the single largest first close for a new strategy ever, and we have been successfully deploying that capital.

As market volatility and more challenging economic conditions continue, we expect that the preeminence of our Oaktree credit franchise will come to the fore. Having one of the most sophisticated credit managers as part of the franchise diversifies our business, makes us better investors, and ensures that we can raise and deploy capital at all points in an economic cycle.

We also continue to benefit from synergies across the broader Brookfield ecosystem. With the tightening of markets and greater scarcity of capital, our asset management business is benefiting from access to the perpetual capital from our balance sheet and the large-scale, flexible capital provided by our insurance solutions business.

Please have a look at this quarter's Brookfield Asset Management Ltd. letter for additional details at <https://bam.brookfield.com/reports-filings/letters-shareholders/q4-2022-letter-to-shareholders>.

## **Real estate is cyclical, but it is a great long-term business**

Part of the Corporation's capital is invested across a highly diversified, very high-quality portfolio of real estate assets in some of the best locations around the world. While we continue to dispose of non-core holdings, much of the high-quality real estate we own will eventually find its way into our insurance business due to its long-duration nature, making these assets ideally suited to match the long-duration liabilities created by our insurance operations. As a reminder:

- \$8 billion of our capital is invested in our real estate private funds, which are highly diversified by both geography and by sector, and where our asset management business has a proven track record of delivering upwards of 20% returns over the long term. These assets are turned into cash in a 5 to 10-year period.
- \$15 billion of our capital is invested directly in our top 35 trophy office and retail complexes globally. These are amongst the best in the world and get better and better over time.
- \$3 billion of our capital is invested in our residential land development business in the U.S. and Canada. This business has delivered very strong financial results for decades. Over time, these assets all turn into cash as we build out developments (unless we choose to reinvest it).
- \$7 billion of our capital is invested in other real estate assets which, as we have discussed before, will be liquidated over time.

The reason we focus on the highest-quality, best-located real estate assets is because we have found that these outperform over very long periods of time and through economic cycles. When office leasing demand slows, these

prime buildings tend to remain full, as tenants take the opportunity to upgrade their premises. For example, with overall vacancy as high as 20% in some markets currently, our U.S. office portfolio remains 95% occupied, and our like-for-like NOI is forecast to grow 10% this year.

Similarly, our shopping centers benefit when retailers make decisions to consolidate their premises into the highest-productivity centers. Our top 20 shopping centers comprise more than 50% of the value of our retail portfolio. They are highly productive, with average tenant sales currently exceeding \$1,100 per square foot, 20% above their sales prior to the pandemic. Occupancy in these malls has rebounded to 97%, roughly where it was before the pandemic, and we are renewing leases with rents at an 8 to 10% premium to the expiring terms.

Our real estate business provides critical infrastructure to our tenants. However, the nature of our tenants is constantly evolving and will continue to do so in the future. For example, 20 years ago our office portfolio was focused on financial services tenants and those that service them. These businesses were voracious consumers of office space, and our large-format, flexible office buildings in the world's best cities attracted many of them as tenants. However, over the past decade regulatory changes have led to slower growth in financial services employment and, as a consequence, their demand for office space.

At the same time, we saw increased demand for office space emerge from large technology and media companies such as Amazon, Alphabet and Meta. They were attracted to the high-quality nature, flexible layouts and locations in cities where their employees wanted to live—and so our tenant mix has evolved and diversified significantly over time. Companies have begun to rethink the way they utilize their office space. Once again, the highest-quality, best-located buildings continue to be in high demand as employers want to encourage workers to come into the office to interact and collaborate with one another.

Similarly, 20 years ago our shopping centers were dominated by large-format department stores, which served as anchor tenants and drove customer traffic to smaller, higher-rent-paying tenants. As consumer tastes and buying patterns have evolved, we have redesigned our centers to focus on high-end luxury tenants, entertainment and food and beverage uses, which attract the shoppers of today. The type and nature of our tenants is constantly evolving; however, our properties enjoy prominent physical locations near large populations of affluent consumers, and as a result, space is in demand.

It is for these reasons that the operating income of our real estate business continues to see strong growth. And despite some impact of higher interest rates on our cash flows in the short term, we have deep conviction in the underlying value of our real estate portfolio and its ability to continue delivering strong returns for the Corporation for a very long time.

## Closing

Thank you for your interest in Brookfield, and please do not hesitate to contact any of us should you have suggestions, questions, comments, or ideas you wish to share.

Sincerely,



Bruce Flatt  
Chief Executive Officer

February 9, 2023



## **Cautionary Statement Regarding Forward-Looking Statements and Information**

All references to “\$” or “Dollars” are to U.S. Dollars. This letter to shareholders contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements which reflect management’s expectations regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies, capital management and outlook of Brookfield Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” In particular, the forward-looking statements contained in this letter include statements referring to the impact of current market or economic conditions on our operating businesses, the future state of the economy or the securities market, share repurchases, the expected future trading price of our shares or financial results, the results of future fundraising efforts, the expected growth, size or performance of future or existing strategies, future opportunities, or the results of future asset sales.

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Brookfield Corporation or Brookfield Asset Management Ltd. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: (i) returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business including as a result of COVID-19 and related global economic disruptions; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including acquisitions and dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes and epidemics/pandemics; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage; (xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including real estate, renewable power and transition, infrastructure, private equity, and credit; and (xxv) factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive and other factors could also adversely affect its results. Investors and other readers are urged to consider the foregoing risks, as well as other uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

Expect where otherwise indicated, the information provided herein is based on matters as they exist as of the date hereof and not as of any future date. Unless required by law, we undertake no obligation to publicly update or otherwise revise any such information, whether written or oral, to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date hereof.

Past performance is not indicative nor a guarantee of future results. There can be no assurance that comparable results will be achieved in the future, that future investments will be similar to historic investments discussed herein, that targeted returns, growth objectives, diversification or asset allocations will be met or that an investment strategy or investment objectives will be achieved (because of economic conditions, the availability of appropriate opportunities or otherwise).

Target returns and growth objectives set forth in this letter are for illustrative and informational purposes only and have been presented based on various assumptions made by Brookfield Corporation in relation to the investment strategies being pursued, any of which may prove to be incorrect. There can be no assurance that targeted returns or growth objectives will be achieved. Due to various risks, uncertainties and changes (including changes in economic, operational, political or other circumstances) beyond Brookfield Corporation’s control, the actual performance of the business could differ materially from the target returns and growth objectives set forth herein. In addition, industry experts may disagree with the assumptions used in presenting the target returns and growth objectives. No assurance, representation or warranty is made by any person that the target returns or growth objectives will be achieved, and undue reliance should not be put on them. Prior performance is not indicative of future results and there can be no guarantee that Brookfield Corporation will achieve the target returns or growth objectives or be able to avoid losses.

Certain of the information contained herein is based on or derived from information provided by independent third-party sources. While Brookfield Corporation believes that such information is accurate as of the date it was produced and that the sources from which such information has been obtained are reliable, Brookfield Corporation makes no representation or warranty, express or implied, with respect to the accuracy, reasonableness or completeness of any of the information or the assumptions on which such information is based, contained herein, including but not limited to, information obtained from third parties.

## **Cautionary Statement Regarding the Use of Non-IFRS Measures**

This letter to shareholders contains references to financial measures that are calculated and presented using methodologies other than in accordance with IFRS. These financial measures, which include Distributable Earnings (as defined below), its components and its per share equivalent, should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics are not standardized under IFRS and may differ from the financial measures or other financial metrics disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities.

We make reference to Distributable Earnings, which refers to the sum of distributions from our asset management business, operating earnings from our insurance solutions business, distributions received from our ownership of investments, realized carried interest and disposition gains from principal investments, net of preferred share dividends and equity-based compensation costs. We also make reference to Distributable Earnings before realizations, which refers to Distributable Earnings before realized carried interest and disposition gains from principal investments. Our outlook for growth in Distributable Earnings assumes growth in fee-related earnings and realized carried interest in line with our business plans, which assume growth in our fee bearing capital consistent with our fundraising plans, capital deployment expectations, maintaining the fee rates we earn on fee bearing capital and earning margins consistent with our current margin. Actual results may vary materially and are subject to market conditions and other factors and risks set out above. For more information on non-IFRS measures and other financial metrics, see Brookfield Corporation’s Q4 2022 Press Release, which includes reconciliations of these non-IFRS financial measures to their most directly comparable financial measures calculated and presented in accordance with IFRS.