

**Brookfield**



# **Brookfield Asset Management Inc.**

## **2011 Year End Results**

### **Conference Call Transcript**

**Date:** Friday, February 17, 2012

**Time:** 11:00 AM ET

**Speakers:** **Bruce Flatt**

Senior Managing Partner and Chief Executive Officer

**Brian Lawson**

Senior Managing Partner and Chief Financial Officer

**Katherine Vyse**

Senior Vice President, Investor Relations

**Operator:**

At this time I would like to turn the conference over to Katherine Vyse, Senior Vice President, Investor Relations for Brookfield Asset Management. Please go ahead Ms Vyse.

**Katherine Vyse:**

Thank you Lori, and good morning ladies and gentlemen. Thank you for joining us for our Fourth Quarter Year-End Webcast and Conference Call. On the call with me today are Bruce Flatt, our Chief Executive Officer, and Brian Lawson, our Chief Financial Officer. Brian will start this morning discussing the highlights of our operations and financial results. Bruce will then provide some comments on the current investment environment and new initiatives and opportunities. At the end of our formal comments, we'll turn the call over to Lori to open the call up for questions.

In order to accommodate all who want to ask questions, can we please ask that you refrain from asking multiple questions at one time to provide an opportunity for others in the queue. We will be very happy to respond to additional questions later in the conference call as time permits, at the end of the session or afterwards if you prefer.

I would at this time like to remind you that in responding to questions and in talking about our new initiatives and financial and operating performance we may make forward-looking statements. These statements are subject to known and unknown risks, and future results may differ materially. For further information for investors, I would encourage you to review our Annual Information Form or our Annual Report, both of which are available on our website. Thanks, and now I'd like to turn the call over to you, Brian.

**Brian Lawson:**

Great, thank you, Katherine, and good morning to all of you on the line. Thanks for joining us.

We achieved a total return of \$3.3 billion for shareholders in 2011, \$5.33 per share, and that represents a 14% return on common equity. This return consists of \$1.1 billion in funds from operations and \$2.3 billion of valuation gains and compares favourably to the total return of \$2.2 billion that we recorded in 2010. Consolidated net income was \$3.7 billion. \$2 billion of that accrues to Brookfield shareholders and that compares to \$1.5 billion for Brookfield shareholders in 2010.

Funds from operations at \$1.1 billion was relatively unchanged from 2010. I should point out that this metric differs from the operating cashflow number that we've reported in the past in that this FFO metric does not include the major realisation gains that we included in the cashflow result.

We achieved good performance pretty much across the board, although solid improvements in a number of our operations were offset by lower investment income from our financial assets. The valuation gains that I referred to of \$2.3 billion include the following: \$900 million from our office properties, it's mostly those in the U.S. due to primarily improved leasing; \$800 million from our retail operations, again mostly those in the U.S., due to improved fundamentals and partial recognition of the attractive value that we acquired these operations at to begin with; \$500 million of gains in our power operations that relates mostly to an improved long-term outlook for the pricing of renewable energy; and \$400 million of gains in our infrastructure operations relating to the transport transmission as well as our timber operations.

So returning to the funds from operations, our asset management and other services contributed \$402 million. That's up from \$348 million in 2010. Base management fees, an important metric for us, increased by 14% to \$190 million and are tracking at \$200 million annually. Accumulated performance income increased by \$119 million, and although we do not record these in our financial statements until all the claw-back periods expire, it is indicative of continued good performance in the period.

Construction and property services increased their contribution to \$150 million from \$120 million. We had \$50.4 billion of client capital under management at year end, of which all but \$7.5 billion is fee-bearing. Private fund and listed entity capital increased by \$800 million as new fund capital and the issuance of equity from our listed infrastructure entity offset capital distributions.

Public securities declined by \$1.2 billion as we continued to exit certain lower margin products. We now have \$7.4 billion of permanent equity in our listed entities, such as Brookfield Infrastructure and Brookfield Renewable, and \$15.7 billion in our private funds, which includes \$5.4 billion of uninvested commitments or dry powder.

The investment performance for our private funds continues to be very favourable overall and the market value of client capital in our three listed entities increased by nearly \$2 billion, 75% of that through value appreciation and each of these entities increased their distributions during the year.

We are continuing to seek an additional \$5 billion in new commitments in eight funds and have a very active pipeline at this time. In fact, four of the eight funds have had first and second closes through the year. These eight funds include funds in existing core areas, as well as three international ventures, two in India and one in Dubai.

Each of our various operating groups made substantial progress during the year, so our property business first contributed \$558 million of net FFO compared to \$421 million last year. The big contributor to growth in that area was our retail business, which I will come back to in a moment.

The office business contributed \$255 million compared to \$311 million in 2010. We received a positive contribution from acquisitions and leasing during the year, but this was offset in part by the reduced interest in our Australian operations that we merged with our 50% owned Brookfield Office Properties in 2010.

We completed a record year of leasing with over 11 million square feet leased at rents that were on average 10% higher than the expiring rents and we reduced our lease rollover exposure during the next five years by 550 basis points. Overall, occupancy at year end was 93.3%. Our goal is to get back to the 95% level by the end of the year and we have an active pipeline of 5 million square feet in leasing discussions to get us to that goal.

Valuations for high quality office properties continue to improve and led to \$800 million of valuation gains during the year. Roughly two-thirds of the gains arose from improved cashflow and a third from lower discount rates and, as I mentioned before, most related to U.S. properties. By way of reference, that would translate into a 5.8% going-in cap rate for the portfolio.

We monetised a number of well leased stabilised buildings for proceeds of nearly \$2 billion, recycled the capital into new higher return acquisitions, including a 2 million square foot property in Manhattan, two office properties in Australia and an office property in each of Denver and Washington.

Returning to our retail business, that reflects the very successful emergence of General Growth from the restructuring, contributed in aggregate \$239 million of funds from operations. Tenant sales in the U.S. were \$505 per square foot on a trailing 12-month basis; this represents a 7.9% increase over the comparable 2010 result and eight quarters of consecutive increases.

The mall portfolio is nearly 95% leased, an increase of over 110 basis points from the prior year and initial rents executed during 2011 were up over 8% over the comparable expiring leases. The core FFO for General Growth was up 7% in the fourth quarter, demonstrating the strong momentum within the business.

With our assistance, GGP refocused its shopping mall portfolio by separating its large regional malls from a portfolio of smaller neighbourhood malls. This will facilitate continued value enhancement by allowing the respective management teams to concentrate on the strategies best suited for each portfolio.

Same store tenant sales in Brazil increased 8% to nearly \$830 per square foot and occupancy increased by 40 basis points to nearly 95%. In the U.S. we opened 28 new anchor big-box stores, totalling nearly 1 million square feet, and three department stores and four more scheduled to open over the next couple of years.

Opportunity in development and finance activities. This segment includes our real estate opportunity funds, our core office development activities and our real estate finance businesses and contributed \$64 million in 2011 compared to \$111 million last year. The prior year results did include a larger number of gains. These activities by their nature tend to be more variable in terms of their FFO contribution and development of course is typically not a current cashflow activity.

We did complete a number of very attractive investments during the year in the form of both direct property acquisitions and purchase of distress loan portfolios, and on the core office development side we're nearing completion of a flagship property in Perth and pursuing a number of major developments.

The renewable power business recorded \$213 million of FFO; that compares to \$257 million in 2010. The decline could be attributed principally to our lower ownership interest in our Canadian operations

for much of the year, as well as lower prices on the short-term power sales. Generation was up 10% year over year but still below 3% below our long-term average (LTA).

Our reservoir levels are currently above LTA, which sets us up well to achieve increased generation levels in 2012, should normal hydrology prevail for the balance of the year. We completed construction on four power facilities for close to \$1 billion during the year, added 280 megawatts of installed capacity, and we have a further \$500 million of projects expected to come online in the first quarter of this year. We've got an attractive pipeline of 2,000 megawatts of projects that we continue to pursue.

And while short-term prices remain weak, our outlook for long-term renewable prices has improved. We base our views on the continued increase in demand for renewable power sources, which is manifesting itself in public policy and utility demand for increased sources of renewable power, and enables us to secure long-term contracts for electricity at premium prices.

In our infrastructure operations we are very active on a number of fronts. We achieved strong operational growth driven by expansion projects, favourable rate reviews and strong demand for our timber product sales originating mostly out of Asia. FFO increased from \$130 million to \$194 million; that reflects the operational gains as well as our increase in ownership of many of these operations that took place in late 2010.

The market capitalisation of our listed infrastructure business increased by 50% to more than \$5 billion at year end due to increased values, and a \$700 million equity raise, and our \$3 billion institutional fund is now 50% committed to new investments.

We completed the acquisition of a toll road in Chile in late 2011, an electrical distribution business in Colombia in early 2012 and are pursuing a number of additional compelling acquisition opportunities.

In our private equity operations, this includes our special situations activities as well as our residential and agricultural development businesses. FFO from this group was relatively unchanged year over year. The residential results were mixed. Our U.S. business contributed virtually nil but at least we are at the bottom of, and believe we are poised or well positioned for, the eventual recovery.

Our Canadian business continues to perform very well, although we did have some slippage of closings into 2012, and our Brazilian business continues to experience very strong growth and record sales. Backlogs in terms of undelivered homes in North America and contracted sales for projects underway in Brazil both increased over the comparable results at the end of 2010, which bodes well for 2012.

We continue to make operational improvements in our special situations portfolios and put more capital to work at attractive valuations through a combination of follow-on investments and new acquisitions. Our three institutional funds have total invested capital of \$1.1 billion and dry powder from clients of a further \$1.7 billion.

On the funding side for the business overall, we continue to have very strong access to the capital markets and are continuing to take advantage of the low financing rates to replace existing financings with longer term and lower rate fixed rate financings to lengthen our maturity profile and lower our cost of capital. This included the arrangement of \$8 billion of loans across our office portfolio, \$5 billion within our regional operations, \$3 billion within our infrastructure operations and \$1 billion within our renewable power operations.

That largely concludes my remarks but before handing the call over to Bruce, I would like to add that the Board of Directors has approved an 8% increase to our common share dividend to 14¢ per share for the quarter or 56¢ on an annualised basis, which will take effect with the next dividend payment scheduled for the end of May. So thank you and I'll now pass the call over to Bruce.

**Bruce Flatt:**

Good morning. 2011 was, I guess we'd characterise it as an active year, as you will have seen from the materials and from Brian's comments. Our main focus over the year was integrating many of the operations that we've purchased over the past few years and to appoint new capital for our clients.

We also continue to put substantial resources towards raising new private funds and lastly I guess we're in the final stages of implementing our listed issuer strategy and in this regard we achieved the launch of Brookfield Renewable Energy Partners in 2011.

Looking forward, I guess I would characterise it by saying that we think 2012 will be an excellent year to continue to invest capital and that, looking back, it will be a very strong year for investments, and therefore we're focused on putting capital to work in all of our mandates that we have across our businesses.

Turning to the market environment which sort of sets the backdrop for that, I guess I'd say that 2011 we would characterise as a year where North American markets were flat. Europe was down and the emerging markets, despite good fundamentals, got caught up in all of the issues that went on in the world. This was largely due to the sovereign debt issues, perceived sluggish economic growth, a potential crisis in Europe and fears about renewed inflation in the developing economies.

The debt market performed very well during the year and was really benefiting from investor anxiety that was out there, but I guess our view is that good companies with good assets continue to have access to capital at exceptionally low yields, as Brian just mentioned, and that continues. And we're working on capitalising on that as much as possible.

As we head into 2012, our view is that many of these concerns that were prevalent last year appear to have abated. The U.S. economy continues to grow and we see that in most of our businesses and fears about Europe and inflation appear to have been overstated. Nevertheless, in the developed economies there's no doubt there are issues that there's too much sovereign debt and that has to be worked through. And I guess our view is that this bodes extremely well for the real asset investment strategies that we focus on and the types of investments that we manage because of the returns that they can produce.

With real interest rates remaining extremely low, our real assets such as property, power and infrastructure offer extremely strong risk adjusted returns for investors. These investments produce cash returns far in excess of prevailing bond yields today and provide investors with, in addition to that, a valuable hedge against inflation in the future, should it come about. Moreover, unlike bonds, they also offer the potential for further capital appreciation and therefore we think that is an extremely positive thing.

Our performance over the last number of years can partially also be attributed to the dramatic rise in contribution of the emerging markets in the world. We have a significant portion, as you know, of our

capital invested in Australia, Brazil and Canada. These three countries have benefited enormously from the commodity markets and what's gone on in the world, and Brazil in particular has seen tremendous growth in the past decade as a result of that.

Specifically we manage over \$50 billion of investments in these countries, over \$15 billion in Brazil, and these countries for us offer higher investment returns, largely because in our view there are many global investors that just don't have the operations to be able to deploy capital in these markets. And our view today is that many of these countries have fully arrived and in fact in many cases are at lower risk than some of their developed country counterparts.

Turning to interest rates, which we often get asked about, we have been living through the lowest interest rate period experienced in living memory. On the positive side this has allowed governments, corporations and individuals to work through debt issues which clearly could have had more broader and extensive issues and financial ramifications. The result of these low interest rates should continue for a number of years, as indicated by many governments across the world, but in our view this situation presents one of the greatest investment risks for global investors as we look out past two to four years from now.

In short, the risk reflects the fact that when interest rates increase in the future all assets which are long-tailed in nature will have their perceived values adjusted downward. However, different than many of the assets and because of the real return nature of what we invest in, within a relatively short period of time our portfolio will earn back the adjustments as the rate of growth of the underlying cashflow increases due to economic expansion and the underlying inflationary pressures that come about with increases in interest rates.

As a result, we believe that real assets are an ideal thing to invest in today for our constituents. They'll protect against long-term interest rate increases. Currently they're earning far greater cash-on-cash returns than alternatives and real assets which generate cash on an annual basis, and the cashflow from these quality assets that increases over time generally has a capitalised value that's higher in the future. And the real return protection is particularly valuable in periods which could result, could happen in the future.

Furthermore, we believe that the capitalised value of real assets today are not reflective of the exceptionally low interest rate period, largely because of the expanded risk premium which currently exists out there, among some other factors. And therefore, in our view, the first, whether it's 1%, 2%, 3% of increases in long-term interest rates, when it happens will have virtually no effect on values for real assets. Nevertheless, I guess we're very focused on this and, as Brian mentioned, we continue to utilise this environment to fix as much of our financing on a long-term basis as we can at these historically low rates.

To use an example just to make the point, if someone pays a 5% going-in yield today for an office building or a shopping mall, many people think this is a high price. And on historical terms it has been, but when you compare that return to a 10-year treasury today, it's 300 basis points higher than what a treasury yields.

To make the point very specifically, seldom have quality assets ever traded at 300 basis points above treasuries and we believe that this is due to the risk premium that exists today. So the future holds one of two events; the first is higher prices for these type of assets as yields adjust lower with this environment and when people realise that rates aren't going up, or believe that that's the case. The second is that the treasury will increase in the future and the risk of premium is a justifiable amount. Determining what happens is obviously what makes a market and if we had to make a prediction you'll probably see values going higher and therefore yields coming down in the short run. And in the longer run you'll see interest on the long hand go up.

Lastly, we felt it just worthwhile to make a few comments on our overall structure of the organisation as it's been very consistent for up to a decade or for many years but it continues to evolve. And as we build our business we continue to position ourselves to take advantage of our competitive strengths and a significant step in maximizing what we think of as our business flexibility has been the launch of our publicly traded flagship infrastructure and renewable power companies over the last five years. Specifically the first step in this was a listing of our infrastructure entity in 2008, the second step was Renewable Partners in 2011 and the last step, as noted in our shareholder letter, if we can achieve it, is the launch of a similar flagship entity for our property group, which as most of you know is a private company today and owns one of the largest diversified real estate businesses in the world. If launched this entity would likely be created through the partial spin-off of shares which would be identical to what we did with Brookfield Infrastructure in 2008. And like our other two flagship entities,

this company would have a global mandate to grow in the commercial property business. It would be managed by us and have a strong dividend policy as we've done with the other entities. And we of course will keep a very meaningful interest in this business from the start.

Once our full realignment is completed with our company and our flagship private funds are working in conjunction with these entities, we believe that we will have created a global asset manager with access to long term permanent capital that very few will rival. Our competitive advantages will then really be threefold. The first is the structure of our organization and the scale of capital we can access, enabling us to do transactions that not too many others can do. The second is our operating knowledge that we have from our businesses and we stay very focused in our specific businesses we're in. And the third is the mindset that we have of longer term capital returns as compared to IRR focused and we believe this gives us a special advantage when we look at transactions. And I guess we spend a lot of time on focusing on these competitive advantages and protecting them dearly and working to enhance them as we try to form the organization as we go into the future, really with the full goal of ensuring that we deliver best in class returns for our clients and for shareholders. So those were the comments I thought I would make after Brian's. Operator I'd now just turn this back to you and Brian and I would be pleased to take any questions from you if there are any.

**Operator:**

The first question today comes from Cherilyn Radbourne of TD Securities. Please go ahead.

**Cherilyn Radbourne:**

Thanks very much and good morning. I guess the obvious question is to ask you if you can give any further detail in terms of your thinking about the spin-off of a global property entity and whether that would include all of the businesses that you're now disclosing in the property segment. In other words the office, retail, plus the real estate opportunity and finance funds?

**Bruce Flatt:**

So thanks for the question and I guess I'd just say we're still in the midst of this and our inclination or what we're working on, is that it would not include any of our residential businesses. This would be our income producing businesses that have the capability in a relatively short term to turn assets into things that produce income. So it would include all of our multi-family businesses that we've been buying in the U.S. It would include our privately owned office buildings that we still own, our

investments in all the entities that we own, office buildings and retail malls, plus all our directly owned assets and our opportunity fund commitments in the area towards anything related to commercial properties. So it would basically be the business that we disclose as our commercial or income producing business.

**Cherilyn Radbourne:**

Okay and as a follow up, would it be your intention to establish a payout ratio similar to that of BIP and BREP and if so, how would that be accomplished just given that some of those holdings don't generate distributable cash flow. Like for instance Canary Wharf which pays dividends at irregular intervals?

**Bruce Flatt:**

I guess I would say our view in the future is that these ... or we found that these companies are total return vehicles. But paying out 60% to 70% of the cash flows is a good payout ratio to have in them. Some of the assets held within will not be ... will not have full payouts of their dividends up to the parent entity. Having said that there will probably be little debt in the parent company and a lot of assets. So it should be able to have a full payout of that cash flow just based off of the levels that are up to and the assets are up top and it has lots of flexibility to generate cash. So we'll have to figure that out over time, but that would be our intention.

**Cherilyn Radbourne:**

Okay, thanks very much I'll pass it off to somebody else.

**Operator:**

The next question comes from Brendan Maiorana of Wells Fargo. Please go ahead.

**Brendan Maiorana:**

Thanks. Good morning. So I guess I just wanted to follow up on the potential property spin-out as well. And Bruce just reading through the letter it sounded like maybe you were, I don't know if frustrated is the right word, but you were a little bit surprised at maybe the level of where the shares are trading relative to the intrinsic value - at around \$41 and the share in the low \$30's. How do you guys sort of think about the risk of spinning out this business where a lot of the assets are already going to be in publicly traded vehicles and I presume that this vehicle will be externally managed

similar to BIP and BREP and that you could have the value of the property vehicle trade below where you guys view the intrinsic value? Because if it's an externally managed vehicle in assets that are already publicly traded in other vehicles, how do you sort of think about the risks associated with it offset by the benefits that you laid out in the prepared remarks?

**Bruce Flatt:**

So I would say the following. In 2008 we spun out Brookfield infrastructure and we didn't know whether it would be an entity that would be taken properly in the capital market. And what I said to an answer of a question similar to what you just said was, we're spinning a very small portion of this company into the capital market. We believe it's the right thing longer term and we think we can do a lot with the company in the future. And for two years the company was flat and then it's done extremely well since then and I think it's one of the great assets in the organization today. Then it's allowed us to do things that very few other can do. So I'd say the first thing is if we do this, we're going to spin a very small portion of the company out into the market. We're going to hope to find investors that like the entity and what we're doing with it. And that over time the future of that company and our business is not about the trading value day one or even two years afterwards, but five to ten years from now. We think this will give us an entity that will allow us to do things that very few others can. And so I guess we're not that focused on short term things, as you know, but we think creating this could be quite valuable for us five to ten years from now.

**Brendan Maiorana**

And do you guys think that the new investments that get done within property. A lot of the new investments that get done would be more wholly owned for this spin-out, as opposed to within some of the publicly traded vehicles that are already part of your property portfolio?

**Bruce Flatt:**

You know I think it could be a mix or it will be a mix. Obviously if there are retail malls being purchased in the United States, they'll be bought by our retail mall company or office buildings by the office company, but what we found is that we do a lot of things in Brookfield Asset Management today, in real estate cause they're not appropriate for the entities that we have in the market. This will have a global mandate, like BAM does today, to do restructurings and enter into opportunistic real estate investments and core assets on a global basis in all the places where we want to invest. And there are an enormous number of things we see every day, but many of them are just not appropriate for the

pure-play companies that we have, that are publicly traded. And so this will be a different entity and all of our opportunistic income producing commercial activities will be conducted through it.

**Brendan Maiorana:**

Okay, sure. Thank you.

**Operator:**

The next question comes from Michael Goldberg of Desjardins Securities. Please go ahead.

**Michael Goldberg:**

Thank you. I'd also like to follow up on this question also and maybe one way that I'd put it is could you give us some idea of what you think the fees from this property LP initiative could add to your intrinsic value. Looking out over the long term ... taking the present value of the future fees associated with the property LP.

**Bruce Flatt:**

You know I guess that ... maybe Brian has more specifics, but I would just say that this entity will have a market cap to rival most in the world. It should allow us to do transactions, some of the largest ones in the world. It should allow us to do transactions which are very large and if we can grow this entity on a positive basis for all the shareholders of this entity, just like renewable power and infrastructure, it could be very valuable to Brookfield Asset Management, both its interest in the company, but also the fees that come out of it. So I don't think we have any ... or I don't have any specifics as to what it could be worth, but you can do the calculations if you grow this entity, it could be worth a lot of money to us.

**Michael Goldberg:**

Okay and a separate question entirely. Do you see any evidence of longer term debt markets developing in Australia or Brazil? And given your optimism can you discuss Brazil residential as an opportunity? And do you see Brazil residential finances and opportunity over time? Also do you plan to invest more in Brazil?

**Brian Lawson:**

Let me just start off on the financing side, Michael, and Bruce and come back to our Brazil company, although they haven't reported their results yet, so we may be a little limited in what we can see on the Brazil residential side.

In Australia as you know we have I'll say struggled a bit, because particularly the property market there is largely funded on a pretty short term basis which is what you're alluding to. We have been working on a number of fronts to try and broaden the access to longer term capital to fund our Australian properties and some of that has involved cross border issuance into the United States on a private placement basis. We're certainly involved on an advocacy basis within the country and with a number of the major institutions there. We are confident that over time a solid institutional mortgage market will develop in the country. It does take time, so we don't expect to see it overnight. But I'm confident we'll be able to do several things in some scale involving either cross border issuance to remedy some of that challenge and lengthen the term there, but you know it will be gradual.

Brazil is another area and I'd say that's probably a bit different in that the opportunity there is for longer term, lower term interest rates and you do have some very, very large and sophisticated financial institutions, principally the banks in Brazil. But again we do see that being a significant area of interest within the company. There's a tremendous amount of term financing getting done out of Brazilian companies into the global markets on a U.S. basis, but we see that you know morphing into a very solid local currency based term funding market as well, over time once you get a little bit more stability and breadth into the capital markets. And that will obviously create a tremendous uplift in the value of term funded assets like ours.

**Bruce Flatt:**

So I'd just add on maybe on the financing front in Brazil is that the market there ... we have far, far less financing on any asset that we have anywhere else in the world, just because interest rates are so high and we just think on a cost to capital basis, we'd rather put more equity in. So we don't have a lot of financing in the country. One of the great boosts of the country, even further from where it is, is that as real interest rates in the country come down - they're the highest in the world - there will be a tremendous, as Brian said, there'd be a tremendous increase in values as you put lower cost financing on assets. That's one of the reasons we still believe there's great investment opportunities in the country. And I guess, well there are many, many people who can go to a county like Brazil and

start making investments. We have just a particular advantage, because we've been there a long time. And given our presence there, we're building out all of our businesses and all on very lucrative returns for our clients and for ourselves. Specifically to the residential business, we continue to see very, very positive yearly growth, or quarterly and yearly growth in the business. And I think we'll build out 20,000 condominium units or something like that this year, and numbers continue to be very robust in all of the markets. So it's just capitalizing on the middle class, earning more income and wanting more housing units. And that continues to be a very positive underlying fundamental, so it looks like it will last for quite a while.

**Michael Goldberg:**

Thank you very much.

**Bruce Flatt:**

You're welcome.

**Operator:**

The next question comes from Neil Downey of RBC Capital Markets. Please go ahead.

**Neil Downey:**

Hi, good morning. Bruce just to clarify a point on the idea of a potential SpinCo of your global property business. To be clear, would that entity hold the shares that Brookfield Asset Management currently owns in Brookfield Properties, so the 250 odd million shares of BPO, as well as the shares that you and your partners own in General Growth?

**Bruce Flatt:**

Yes.

**Neil Downey:**

Okay. And just a point of clarity ...

**Brian Lawson:**

In addition of all of the other private assets that we have.

**Neil Downey:**

Right. Okay. And one clarifying point on your new disclosures as you outlined, an FFO or fund from operations number, should I simplistically think of this number as being a recurring cash flow number, plus gains on opportunistic investments, but effectively excluding dilution gains that are realized from time to time when you sell down pieces of core businesses?

**Brian Lawson:**

Neil, its Brian. I would say it's similar to the cash flow from operations number that we historically reported, excluding what we often refer to as major disposition gains or major realization gains. We really view the businesses as I'll say having two components to it from that perspective, within the more opportunistic private equity residential development type businesses, those by their nature, the results on an ongoing basis are composition of ... I'll say cash flow or ... pure FFO and disposition gains. That's just what they do. In some of the businesses like our core office and the retail and the infrastructure, that's more of an FFO business and so when you see us either monetizing a group of large assets of that nature or our interest in one of the entities that owns those assets. So for example a sale of a monetization of a portion of our holding in Brookfield Renewable, things like that ... then those would be those major realization gains. We've segregated them in the past and just in an effort to try and simplify the disclosure going forward, we felt we would just stick with I'll call it more of a clean FFO number, give you the valuation gains and then you may have noticed we also provided those realization gains just to provide some context about our ongoing crystallization of the valuation gains that we build up over time in relation to those assets.

**Neil Downey:**

Okay. Thank you Brian.

**Brian Lawson:**

You're welcome.

**Operator:**

The next question comes from Mario Saric of Scotia Capital. Please go ahead.

**Mario Saric:**

Hi. Good morning. Just coming back to this potential listing of the property fund. And we're maybe getting a little bit ahead of ourselves here, but just with respect to future growth within the fund, I'm thinking about what the potential implications are for some of the listed entities today, like a BPO for example, with respect to expanding into new geographies. So if we do have, let's say a core CBD office fund in continental Europe, is this something that generally would be included in the fund as opposed to BPO going forward? So just some thoughts on implications for growth.

**Bruce Flatt:**

Yeah, I'd say the following. We've had our rule that we've always operated with our public companies where we own a major interest in and that's that if the board of that downstream company wanted to make an investment, we were always happy through the company to take our proportionate share. And hence if Brookfield Office Properties is an office company and they want to buy an office portfolio in Europe, we're ecstatic about that, if we like the investment along with the board, then we'd be happy to own half of it through the company. Having said that, we have a much broader mandate, obviously which is global and we've been doing a lot of things out there and we need a balance sheet to finance that off of and those companies, the investors in them, are very focused as to what they want to do and they don't do all of the different investments that we make and they're much more opportunistic in nature. So that's really the difference between the two.

**Mario Saric:**

Okay. And I guess, you know longer term, is there any concern internally that you are mixing commercial property, but you're including office, retail and multi-family, is there any longer term concern as far as the impact on pricing from lower specialization by asset class within the fund?

**Bruce Flatt:**

You know I guess we'll have to see five years from now whether we're right or we're wrong, but we believe that we can create a global entity that has diversity, both in geography and product type, and we have all of the capabilities to do that with the people that we have in-house. And we're doing it today. Remember, the most specific point of this is, all of this is run by Brookfield today and it's a 100% owned entity. What this is, is a split-off of that, just like we did with Infrastructure and Renewable Power. I guess what we believe is that this entity will find a place in the capital markets and investors that want to invest with it, but five years from now, we'll have to see.

**Mario Saric:**

Okay great, I appreciate that and maybe one last question for Brian, just on the more recent revised outlook from S&P. Could you maybe share some of your observations on the announcement and perhaps how important that A-minus rating is to BAM and how comfortable you are in meeting some of the thresholds by S&P in 2012?

**Brian Lawson:**

Sure. Just for edification of others on the call, the S&P put us on negative outlook for our A- low rating. We actually had been on negative rating twelve or eighteen months ago. You know, at the end of the day that doesn't impact how we run the business. We don't think it will affect our financing costs much at all. I'd say what their rating reflects is, they have a ... and I need to be careful of putting words in their mouths, but I think they're probably public on this in terms of their view with respect to certain aspects of the U.S. economy and its slower growth environment. And I think they were reacting to, frankly, something we've been pretty clear on, which is, we are not getting the type of contribution out of our U.S. homebuilding business and certain other of our businesses that are more directly influenced by the U.S. economy. We do see very encouraging signs there, but this year we didn't really get much of a contribution out of that. I think, frankly, they were reacting in part to that in their assessment of it.

So we've been there before; we have a great relationship with S&P and we value their views, but we think the progress we see on the horizon in terms of growing the cash flow and the performance of the business, we don't see any issues longer term in taking that outlook off and getting back to the usual rating.

**Mario Saric:**

Great, thank you.

**Operator:**

The next question comes from Andrew Kuske of Credit Suisse. Please go ahead.

**Andrew Kuske:**

Thank you, good morning. I think this question's probably for Brian to start off with and it's just on the dry powder of committed but not deployed capital. I think you said the number was \$5.4 billion. If

memory serves me correctly, that's down from what you had in the previous quarter. If you could just give us some color in the decline in that number.

**Brian Lawson:**

Sure. So somewhere there's an element of returning capital to the investors in terms of the overall amount of fund capital in our private funds. I'd say one of the things that we pride ourselves on is, we're not going to put the capital to work unless we see attractive opportunities, both in the eyes of our stakeholders, but in our own, given that we invest a lot alongside in these funds and we obviously think that as an alignment of interest, it's incredibly important.

So we did have a couple of situations where we came to the end of the investment period. We hadn't put all of the capital to work and in those situations – I think it's also worthwhile to point out that we're actively raising a number of funds that will in fact replace that capital. That's part of the normal life cycle of the fund management side of things. You come to your end of your investment period and then ideally you've invested as much, or all of the capital; you always hold some back, but then you're onto the next fund, which the objective there is obviously to have the closings follow close on top of the expiry of the investment periods. So that's what that's about and obviously with the \$5 billion in the pipeline, we would like to have that number get back up higher than the \$8 billion that it was.

**Andrew Kuske:**

Okay, that's helpful. And then a somewhat related question: but how big do you believe your asset management business can become in terms of AUM, relative to your existing cost structure that you have in place? Because your costs of this business you've been building this over quite a few years now and you've got a pretty large structure in place across asset classes. So how big could the business be relative to the cost structure you have in place and when will the costs actually flat line from here?

**Brian Lawson:**

Well, I think we've put a lot of effort and money – costs – into building out the structure to get to where we are now and I think all the heavy lifting has been done. It's hard to project that out with any great degree of precision, but I think we can at least double the business without having anywhere near the commensurate increase in the operating costs. But we would expect to see the margins expand significantly.

**Andrew Kuske:**

Great, thank you.

**Operator:**

The next question comes from Mike Mitchell of Locust Wood. Please go ahead.

**Steve Errico:**

Hi, this is actually Steve Errico for Mike. Thanks for taking my question. We're excited about the potential spinoff of your property business and would applaud it, because I think what will be left is, people will then start to focus on the value of your asset management business. And I notice in your press release, you guys value it currently at about \$4.2 billion and I was just kind of curious as to how you look at it and how you guys come up with that number. Thank you.

**Brian Lawson:**

You're welcome; thanks for the question. So, we have a methodology for coming up with that number and in essence, what it assumes is that we grow the existing AUM at about a 10% clip. We actually have this laid out in our materials, but it takes a little time to get through to that. We grow it at 10%, we achieve a 150 basis point margin, we put a fifteen times multiple on it, like you would see a number of asset managers valued, and then we put a 15% discount rate on that. And that's a mathematical calculation that comes up at around the four and a quarter billion dollars.

I think really the point of us having that number in there is to focus people's attention on the fact that there is a franchise value there and our objective over time is to continue to increase the AUM and the associated margins and fee revenues to crystalize that value, and a lot more.

**Steve Errico:**

Great, thank you very much.

**Operator:**

The next question comes from Bert Powell of BMO Capital Markets. Please go ahead.

**Bert Powell:**

Thanks. Bruce, in your letter you talked about significant resources for raising new funds and at the same time, it seems that some of the dry powder's falling away for perhaps opportunities that aren't meeting acceptable returns and I'm wondering if you could share with us your thoughts just in terms of where are the biggest challenges here? Is it raising the money, or is it finding investments to earn a reasonable return?

**Bruce Flatt:**

So firstly, I'd say the difference when you calculate and you look on a quarterly basis on funds that we have to deploy, is often dependent and maybe to be very specific about it, is dependent upon timing of when a fund expires and when another one gets raised. So I wouldn't too much focus on the fact that one, it's one number one quarter and one the next; it's over a longer period of time you need to look at it, I think. And maybe that's the first comment.

To answer your second part of the question, which is, is it harder for us to find money, or is it harder to invest, I would say that maybe specifically, they're all hard every day and we don't make light of any of those challenges that are in front of us. I guess I would say that on both of them, we – and firstly on fundraising – we enjoy an extremely fortunate situation where we have access to most global financial institutions that fund us around the world. And given the scale of operations that we run, that's extremely important. We also have built enviable relationships with a number of institutional clients and therefore we have great access to money from many of them.

Despite that, we can always do better and in fact, there are others that do it better than us and we would like to excel to where they are. So on that side I think we do okay, but we can always do better.

On the investment front, I'd say we've done well, putting a lot of money to work in the last three years. We think that's been an excellent period to put money to work and we think the capital we've put to work will do extremely well. And on top of the record that we came through the downturn with, from the previous five years, will show us in excellent stead when we look at historical returns and that should help fundraising.

As to investments today, there is no doubt they may be tougher to make, because there's more people looking for investments than there were two years ago, but we have a global sourcing platform that

finds lots of opportunities for us and we have to sort through the ones that we like. I'd say again, it's tough and business is always tough, but we don't have a lack of things to put into our platforms.

**Bert Powell:**

Okay, and also in your letter you talked about the prospects of, at some point down the road, if the value is not reflected in the share price for the asset management business, that you would look to kind of separate that out. I'm assuming you're alluding to creating a separate public vehicle that would just be a dedicated - the sole source of income would be from managing the assets related to the Brookfield ecosystem?

**Bruce Flatt:**

Yeah, I would say the following. What that comment was meant to indicate is that we're in the business of creating value for our shareholders and we think about it over the longer term. Some companies think about things in a short term, where their stock price is tomorrow morning, but we're in the business of solely generating wealth for our common shareholders. Because of the type of business we run, there are many different separations you can make in the business, if that was best for the business and creation of value for the common shareholders. And we're not set on any one way and therefore, if we think that this large entity that has global access to capital with these entities for specific products in areas where we have expertise is the right strategy, and our having a big interest in them, but some day, five or ten years from now when the machine is fully built-out, if that isn't properly valued in the market, we can always look at alternatives. And we're open to those and we always are open to those and we continue to think about them ourselves and in fact, listen to investors and analysts and talk to them about it. So you know, we're always open to suggestions.

**Bert Powell:**

Okay, thank you.

**Operator:**

The next question comes from Jeffrey Olin of Vision Capital Corp. Please go ahead.

**Jeffrey Olin:**

Good morning and congratulations on great results. Just a quick question. It would be appropriate to assume that going forward once the spinoff entity is created, that the parent company, other than

participating in transactions that the underlying entity does, would no longer be directly involved in the property business – commercial property business.

**Bruce Flatt:**

Yes. So our intention with Brookfield Renewable Energy and Brookfield Infrastructure is that all of our activities in those areas are conducted through that entity. So the same thing would go for our property company. That is to say, there are some times those entities need support from us and we sometimes assist them and that does result in us sometimes participating. But it would be the exception and it would only be to assist the downstream company.

**Jeffrey Olin:**

Thank you. My second question is: what are you seeing in terms of fees pressures or opportunities in your asset management business?

**Bruce Flatt:**

You know, we're not seeing any real change in fees at the current time. I think the difference is, there are people out there that can't raise money and there are ones that can and we fortunately fit into the category of those that can. It's not really about fees; it's about whether you have the relationships and your performance has been good. So we're not really seeing any change in fees in the marketplace.

**Jeffrey Olin:**

Thanks very much.

**Operator:**

The next question is a follow-up question from Michael Goldberg of Desjardins Securities. Please go ahead.

**Michael Goldberg:**

Thanks. I'd just like to clarify one point. In order to maximize access to cash for distribution to this property LP unit holders, would you contemplate BPO and GGP converting into REITs? And I have another question after that.

**Bruce Flatt:**

Firstly, GGP is a REIT and Brookfield Office Properties is not a REIT, it's a corporation, but they have their dividend policies. They already pay a significant portion of their cash flows out, and really, this has no effect on what we do up top. We own those entities and they'll do what they do, based on what the boards of those companies decide. Obviously we have our participation in that, but there's no reason for us to do anything different, I don't think, and we won't have to.

**Michael Goldberg:**

Okay, and a separate question entirely. Along the theme of value creation. One thing that's often puzzled me is, you get included in the real estate index and clearly you are less and less, over time, a real estate company. You're an asset management company. Is there anything that you can do to influence which index your stock gets included in?

**Bruce Flatt:**

I think all of our investors should phone the index people and tell them to put us in a different index, maybe, Michael.

**Brian Lawson:**

Yeah, we have had conversations on that front. I think we actually have made some progress in a couple of areas there and it'll evolve more over time. No, we're active on that front.

**Michael Goldberg:**

Are you saying there is a change that may be pending?

**Brian Lawson:**

Possibly.

**Michael Goldberg:**

Thank you.

**Operator:**

The next question is a follow-up question from Brendan Maiorana of Wells Fargo. Please go ahead.

**Brendan Maiorana:**

Thanks. So Brian, I have kind of a two-parter for you on power. First, I was trying to reconcile between BREP's disclosure in their pro-forma FFO that they provided – I guess it was last week – and the numbers that you provided this morning for 2011. Can you give a sense of how much cash flow was generated by the platform outside of BAM's interests in BREP and if we look at that on kind of a full year 2011 pro-forma basis, assuming BREP was in place for all of '11. And then maybe to translate that into what the expectations are for growth and power rates over time and how that applies to the difference between the BAM power valuation over all of around \$8 billion and BAM's interest in BREP and the value of BAM's interest in BREP which I think at 12:31 was around in the low \$ six billions... maybe \$6.2 billion or something like that. So the difference between those two.

**Brian Lawson:**

Sure, okay, so on your first question; I can't give you a number for that off the cuff here on the call. But in terms of your question on the valuation side what that difference that you're referring to effectively translates into, is the difference between if you took power prices and grew them at 40% of CPI, or if you grew them on a profile that we think is more likely to occur, particularly for renewable pricing. And that's the big difference, is the price premium that we see there. So if you go out in terms of how we look at prices over the next few years, we just take them off the curves.

And they pick up a bit from now, but it's not a tremendous amount. What you really see occurring is that sustained premium for renewable pricing manifesting itself more broadly across the market in a couple of points I've made. You can see what's happening ...in public policy ... and you also can see it in how utilities and purchasing entities are behaving and our ability to sign up long term contracts, whether it's for wind assets, for new hydros, for our existing hydros, and it does give us a lot of conviction that we will be able to move our overall pricing up substantially over time.

**Brendan Maiorana:**

Just a point of clarification: the 40%, because I think there is... the 40% of CPI numbers that BREP gets in their contracts. But then the BAM platform gets generally, for a lot of those contracts that are under the long term contracts, it gets the full CPI escalator. So can you give us maybe a sense of how much of the differential is attributed to locked-in cash flows that the BAM platform will get, versus how much is based on a longer term improvement in power prices?

**Brian Lawson:**

It's probably about a third to half in terms of what's locked in and then the other half is based on growth.

**Brendan Maiorana:**

Okay, thank you.

**Operator:**

The next question is a follow up question from Mario Saric of Scotia Capital. Please go ahead.

**Mario Saric:**

Thank you. Bruce, just perhaps looking at the acquisition environment today, can you give us some color as to where you see bid-ask prices today and what potentially may be the catalyst for that to narrow going forward?

**Bruce Flatt:**

So, I would say... I'd differentiate it on assets which can be purchased from corporations or sellers that have streams of cash flows that are relatively locked in and secure. There are many, many bidders and yields are compressing every day and they have been for a while and we believe they'll continue to compress downward, meaning values are going up.

On the distress side where there are no cash flows, or they're less transparent as to where the cash flows are, because they're mixed up in a reorganization or a European situation - in many of those things that come along with a reorganization. There are not too many people that are there and therefore there's a big gulf and those are the opportunities that, I guess, we focus on. So I'd say it is a tale of two cities with respect to acquisitions. Not a lot of capital for the second type and lots of capital for the first. Most of our money is focused on the second category, being reorganizing assets in the businesses that we're in.

**Mario Saric:**

Okay, great. And just on those assets, the bid-ask spread, is it still wider than what you would have anticipated it to be at this time? Or are valuations attractive at this stage?

**Bruce Flatt:**

I'd say in North America people are being realistic and people are clearing assets and they have been for eighteen months. Europe, they're just starting into it, and we think the next two years there will be many assets cleared out of the banks and corporations as they start to get a grip on their financial situation. So I'd say it's different in the two major markets.

**Mario Saric:**

OK, great, thank you.

**Bruce Flatt:**

Thank you.

**Operator:**

This concludes the time allocated for questions on today's call. I will now turn the call back over to Mr Flatt for concluding comments.

**Bruce Flatt:**

Thank you all for joining today. Of course, should you have any questions on the materials or anything, please call any of us at Brookfield and we'd be pleased to speak to you. If nothing else, we'll talk to you next quarter. Thank you very much.