Brookfield Asset Management

Q3 2009 Earnings Conference Call Transcript

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Speakers:

Robert Harding
Chairman

Brian Lawson
Managing Partner & Chief Financial Officer

Bruce Flatt
Managing Partner & Chief Executive Officer

OPERATOR: At this time I would like to turn the conference over to Mr Robert Harding, Chairman of Brookfield. Please go ahead.

ROBERT HARDING: Thank you, operator. Good morning, ladies and gentlemen. Thank you all for joining us for our 2009 Third Quarter Earnings Announcement conference call and webcast. Joining me today on the call are Bruce Flatt, Senior Managing Partner and Chief Executive Officer. Bruce will provide a brief market comments and some updates on our recent initiatives and business strategies and Brian Lawson, our Chief Financial Officer, who will discuss our financial and operating results.

At this time, I would like to remind you that in responding to questions and in talking about our new initiatives and our 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 on known risk factors, I would encourage you to review our Annual Information form or our Annual Report which are available on our website. In addition, our Q3 news release, supplemental information and Letter to Shareholders are also available on our website. With that done, I will turn the call to Brian Lawson.

BRIAN LAWSON: Thank you, Bob. We reported $520 million of cash flow for the quarter, compared to $355 million during the same period last year - an increase of $165 million.

There were four major variances in the results: cash flow from commercial properties increased by $68 million due to a modest increase in net rents and lower carrying charges. On the other hand, our Renewable Power operations experienced lower spot pricing contributing to a decrease of $65 million. These two items largely offset each other.

The other two variances related to disposition and realization gains. We recorded a particularly high level of disposition gains in 2008 due in large part to credit default swaps with the results that investment income from our financial assets was $100 million higher in that period. And during the current quarter, we recorded a $346 million realization gain on the partial monetization of hydroelectric facilities and that compares to an $80 million gain on the sale of a commercial office property interest in 2008. There were a number of other smaller variances, positive and negative that largely balanced out.

Our net income was $112 million in the current quarter compared to $171 million in 2008. We did experience a higher level of non-cash charges that included a higher non-cash tax provision that related to the higher level of realization gains. We increased our core liquidity by approximately $700 million since the end of the second quarter to approximately $3.8 billion. That was through debt and equity financings and asset monetizations. We also added nearly $10 billion of capital allocations from asset management clients and Bruce will comment further on these activities in his remarks.

Once again, the operating results from our two largest platforms, Commercial Properties and Renewable Power Generation, were largely as expected given the contractual nature of the revenue streams and the competitive position of the assets. The one exception to that would be lower electricity prices, as I mentioned, owing to the economic slowdown and cooler weather in the summer months. Excluding realization gains, these two operations combined to produce a total of $217 million of net operating cash flow, a slight increase from the contribution in the third quarter 2008.

Commercial Properties generated net operating cash flow of $176 million in the third quarter of 2009, as I mentioned, that represents a $68 million increase. This represented a 2% increase in same-store rents and as well as the contribution from recently completed properties as well as the impact of lower interest rates and floating rate debt.

We leased 3.2 million square feet within the North American portfolio during the first nine months of 2009, 700,000 square feet of this space was leased in the third quarter at an average rate of $25 per square foot, that's 25% higher than the leases being replaced.

I would note the following in respect to the operations: the global portfolio remains well-leased with average overall occupancy level of 95.5%, that's slightly higher than the level at the end of June. Expiries are limited to 1% over the balance of 2009 and 4% next year. Average lease term across the portfolio is 7.4 years, average in-place rents are by our estimation 12% to 15% below the comparable average market rents and we experienced virtually no tenant issues in the portfolio since our last report.

Our renewable power generating operations contributed $387 million of net operating cash flow and realization gains in the quarter that compares with $106 million in the same quarter last year. The realization gain arose on the monetization of 50% of our directly held Canadian hydro facilities which we completed over the course of the summer.

We achieved above-average generation in both 2009 and 2008 it was about 16% of above average in the current quarter, that's 7% above average year-to-date. Pricing, however, as I mentioned, was lowered. The economic slowdown and cooler weather resulted in lower-than-expected spot prices during the quarter and average realized prices were $14 per megawatt hour lower. This impacted the generation that we did not sell forward because of potential water fluctuations and that resulted in the $49 million decrease in contribution from our hydro facilities.

The prices, however, are locked in for 80% of the power that we expect to generate over 2009 and 2010, based on our long-term averages and this continues to largely mitigate the impact of lower energy prices.

In addition, even with the strong generation levels produced during the quarter, we were able to hold back water with the result that our reservoir levels are estimated to be 13% above long-term averages for this time of the year. This should enable us to exceed generation targets, if water flows are consistent with average for balance of the year, and benefit from prices we expect to be higher in the coming months.

In addition, we are also working on a long-term contract for our generation in the Province of Ontario, which averages 2,300 gigawatts hours per annum. The contract would provide for a fixed base price and fixed payments in respect of some of the peaking and ancillary revenues. These payments will escalate annually by a fixed percentage. If successfully concluded, this will increase the percentage of our generation that is contracted on a long-term basis from 50% to nearly 70%, consistent with one of our major objectives in this business.

We did record lower contributions from several of our business units that have been more directly impacted by the slowdown in the US economy and the home building sector. This is notably our in our Timberland and Residential operations. The contribution from infrastructure operations declined quarter-over-quarter in part due to the fact that in our Timber operations we continue to operate at reduced harvest levels, and that's in order to preserve long-term value to allow the trees to continue to grow until prices and margins improve.

In our Transmission operations, the contribution there was very stable as expected, although the aggregate cash flow was lower somewhat because we no longer receive cash flow from the Brazilian Transmission interests that were sold earlier in the year for a substantial amount of proceeds.

Our Brazilian Residential operations are continuing to benefit from the expansion of the business over the past 12 months and a favorable operating environment and this has offset lower volumes in our Canadian operations.

Looking forward, the fact that we have locked in such a high percentage of our revenue streams in our two largest businesses, Commercial Office and Renewable Power, provides significant stability to our results during the current economic environment, a high level of visibility for the remainder of the year and 2010, and confidence in our ability to achieve our long-term objectives in future years as well.

As I mentioned, we did receive lower contributions from some of the shorter duration businesses during the quarter but they do appear to have bottomed out and we do believe that we will begin to see growth from the businesses through 2010 and 2011. We continue to maintain a strong financial profile, good access to the capital markets and good access to the capital markets during the third quarter. This is reflected in our high-level of core liquidity and the fact that our debt maturities at the corporate level prior to 2012 are limited to a single $200 million maturity in 2010.

Furthermore, at quarter end, we held $3.8 billion of core liquidity and $6.7 billion of uninvested capital that has been allocated by investors to our various mandates, for a total capital of $10.5 billion that could potentially be deployed into new investment opportunities.

Lastly, I would like to report that the Board of Directors declared our regular quarterly dividend of $0.13 per share payable at the end of February 2010, and with that I will hand the call over to Bruce.

BRUCE FLATT: Thanks, Brian and welcome, everyone, on the call.

The past 12 months in the capital markets have been an interesting period for investors and as Brian noted, leaving aside the extreme market distress that was out there, exacerbated by liquidity issues, the fundamentals of our business in most geographic markets and most of the businesses we’re invested in have been playing out essentially as one would have expected in this type of economic cycle. Thankfully it appears we're now in the bottom portion of the recovery phase of this market cycle and that bodes well for everyone, including us.

We have completed a number of fundraisings to date in 2009, as Brian mentioned, and were particularly active during the third quarter. In total this year, we have raised almost $12 billion in external capital, which should enable us to continue to acquire assets in the bottom portion of this market cycle. Access to this significant amount of capital places us in a select group of large investors who have both, in our view, the capital and the human resources to pursue recapitalization transactions on a global basis where it makes sense for us.

Specifically, this included external capital raisings of approximately $600 million, of external capital through the issuance of Brookfield Properties, taking out the amount we subscribed for; $300 million in our Brazilian property company which is listed on the BOVESPA; $800 million for the newly named Prime Infrastructure in Australia, which is in escrow today, pending closing of that transaction. That company will continue to be listed on the ASX in Australia. Also, $600 million for external capital for Brookfield Infrastructure to fund that part of the transaction and $500 million for our Brookfield Renewable Power transaction and almost $5 billion of commitments and pledges from private strategies. That is a lot of capital and we feel fortunate to have this access to this amount of capital and diversity of capital at this point in the markets, and thank all of those that participated with us.

There are several further initiatives we're working on to raise capital both privately and publicly and as is our policy, we'll comment on those when they're complete. This should enable us to invest confidently through the recovery phase of the cycle which we believe should generate exceptional long-term returns for those that can invest.

We continue to focus on six priorities, basically the same that we've had in place over the last two years. These as usual, are listed in detail in our Shareholder Letter but now that the capital markets are back to some semblance of normalcy, we have been focused on new asset acquisitions as one of the priorities which likely will take the lion's share of our attention over the next 12 to 18 months. In this regard, we did commit to acquire a substantial portfolio of infrastructure assets in the last month which I will speak about briefly in a minute.

Stepping back prior to that, maybe just to talk about infrastructure, we set out a number of years ago to expand our infrastructure presence from one largely invested in hydro-generation to one more broadly based. We were successful in acquiring a number of electricity transmission systems and high-quality private timberlands. However, about four years ago the space became extremely over capitalized and much more difficult to find transactions that we were comfortable with. I guess everyone knows the story after that and what happened. Fast forward to today, we believe that for people with capital to invest, that there are numerous opportunities to assist institutions recapitalize high-quality portfolios which essentially have a number of characteristics and that are all similar.

We think we have three advantages to participate in a number of these. The first is that we have very significant operating expertise within the Company, to be able to work out the issues which are in a number of these portfolios. Two, going into them, most companies, their boards, their management teams and their shareholders are worried about being able to get caught in a restructuring and get compromised by one of the pieces of paper and get in the wrong place. Over the years, we've developed a very significant expertise and number of people that work on restructurings and these types of complicated situations and we think therefore we can participate in a number of these with confidence. And three, some people have those, two, but they don't have the capital to invest into these situations and we're fortunate with that third one as well.

I'd like to focus just for a second on the Babcock & Brown Infrastructure transaction. It includes almost $8 billion of assets and assuming the transaction is approved, we'll end up owning the following assets: We'll own 100% of the third largest, by tonnage, free-hold port in the United Kingdom, 50% of the world's largest, coal-to-export terminal which is in Northeast Australia and we'll also own approximately 40% of a newly-named entity, as I mentioned earlier, called Prime Infrastructure. Prime will trade on the Australian – continues to trade on the Australian Stock Exchange and it will have approximately $5 billion of assets, which includes, as would have been noted in our releases before, about 5,000 kilometers of rail lines; the other 50% of coal the coal terminal I just mentioned, a 26% interest in the 15,000 kilometer NGPL pipeline in the United States; a number of ports across Europe and various gas and electricity systems in New Zealand, Australia and UK.

More importantly, the recapitalized assets will have a long-term debt profile, one that's appropriate for the business. Its loan-to-value ratios will be less than 70%, its cash hold coverages will be strong and we think there are a number of growth prospects going forward. After the transaction is closed, we would be pleased to talk more fully about all of those assets in the future.

I'll turn just for a second to infrastructure as an asset class because we think it will take a significant amount of our efforts over the next few years. There are really two reasons for that. The first is that there are a number of complicated situations that need recapitalization, and the second is that there is substantial growth, we believe, in the business because governments are going to have to raise capital on the privatization side to pay down debt.

Looking specifically at infrastructure as an asset class and contrary, I would say, to many people's views, the asset class generally performed as one would have expected in this cycle. There are a few exceptions but generally, the assets have been very resilient and have continued to generate cash flows as expected. Unfortunately, many new investors entered the market over the past few four years and there were three mistakes made. One, obviously, was that some people paid too much. Two, growth assumptions were too high for the predictions of cash flows going forward or, three, and probably the most fatal one as usual, is that excessive leverage was employed within strategies.

As a result of this many owners of infrastructure assets have gotten in trouble and this, I'd say in our view, "has bruised" the asset class in the eyes of some investors. But we believe this is unwarranted for the asset class and think that with proper capital allocation and underwriting assumptions, these assets are one of the most compelling real return assets for institutional investors and you have seen a number of institutions start to launch a number of transactions to get into the area or continue to build their presence in the area.

Our focus today is, therefore, on sourcing a number of these assets which, are owned by others, but which are overleveraged and we think there is a number of them out there and we have a lot of work to do with the Prime Infrastructure and Babcock assets and therefore need to get that taken care of first.

Our goal is to assist financial institutions and owners of assets by providing solutions for unravelling some of these situations. We believe that higher-than-normal returns can be earned in this stage of the cycle by doing this, because it's just difficult, as I said earlier, for people to navigate a restructuring or few players have the capital to participate. We think this environment probably exists for 18 to 24 months, similar to what we believe for real estate, which I didn't specifically propose on dealing with today.

In the second phase of this, and after that 24 months, we believe that the private infrastructure funding is set to grow significantly in the next 10 years and that will be both on new build assets, similar to a number of hospitals we're building in Australia and UK today, and on the sale of in-place assets that governments own. Essentially it's based on the premise that governments across the world have overspent in relation to their budgets. They need to right size their debt positions, as a result, just like any good company they need to sell assets to get their liabilities down. The easiest way to do this is to raise taxes, though that's tough and not that it's easy to sell infrastructure assets, but we think the impetus is now. There are a number of governments that had the choice before and really didn't want to do this, but believe they will make the decision to liquidate capital assets to pay down their liabilities. There is more on this in our Shareholder Letter and in our recent prospectus for Brookfield Infrastructure. I didn't intend to go through all of it today, but we encourage you to read either of the documents to get more detail in this regard.

Finally, and to state the obvious before I turn it over to the operator, we remain committed to invest your capital and our investment partners' capital in what we term as high quality, simple to understand assets which generate solid cash-on-cash returns while always emphasizing downsize protection. We think the capital invested over the last 12 to 18 months and the next 12 to 18 months will earn outsized returns from what you would generally expect on these types of assets and therefore we're putting as much money as we can afford to work in this period. We do believe we are in the next phase of the current downturn and therefore the assets we buy should pay off for us over the years ahead.

With that, thank you for being on the call today and I'll turn it over to the operator for any questions if people are on the line.

OPERATOR: Thank you, sir. We will now begin the question-and-answer session.

The first question comes from Linda Ezergailis of TD Newcrest.

LINDA EZERGAILIS: Thank you. I have a few questions about your Renewable Power business. Specifically, I'm interested to get a better understanding of what sort of contract you're looking to negotiate in Ontario and who your counterparty is? Is it with the government and what sort of duration are you looking at when you say long-term?

BRUCE FLATT: Linda, its Bruce. We put that in there because we're always trying to be fully transparent with our information. There is nothing else that we can say with respect to the contract, today. We expect that if we can get a contract signed, it will be in the next short while and we'll be able to fully describe it to you.

The only thing I would say to you, long term is not five years to us. It's much longer than that and we always look to these kinds of contracts for these assets if we think that the values approximate what we think we can do in the marketplace for a long-term asset. So that's all I can really expand on, other than what's in the material that we have.

LINDA EZERGAILIS: And can you say whether it's the government or some sort of government body or not?

BRUCE FLATT: If you look at the market in Ontario, you can probably surmise that that's a good comment, but I can't specifically say that.

LINDA EZERGAILIS: Okay. Just moving on to something else, I'm wondering – I'm still trying to get a better understanding of your calculations for your intrinsic value. I'm just wondering how you treat corporate overhead in your underlying values. Is it imbedded in the $2.50 a share of additional value and if so, what sort of discount rate are you applying to those expenses?

BRIAN LAWSON: Linda, its Brian. It is largely embedded in that billion five you reference, together with some of the asset management fees that we're currently earning. So we would look at it on a multiple basis of say 15 times, 10 to 15 times, depending on what it is.

LINDA EZERGAILIS: 10 to 15 times cash flow?

BRIAN LAWSON: Yes.

LINDA EZERGAILIS: Okay, thank you.

OPERATOR: Our next question comes from Mark Rothschild of Genuity Capital.

MARK ROTHSCHILD: Hi, good morning. I understand you don't want to give a lot of detail on the potential of your signing of a new power contract, but is it possible to give a range for long-term contracts, what type of pricing would be reasonable to expect now?

BRIAN LAWSON: Mark, its Brian. That's really not an area we elaborate on right now. We're in the midst of negotiations so that wouldn't be appropriate. Although, I would echo Bruce's comments, which we've made in the past. Our objective in entering into these sorts of contracts is to enter into them when we can achieve pricing that is consistent with our own views, it is good pricing over the longer term.

MARK ROTHSCHILD: Okay. Moving on to something else. Bruce, you noted in the Shareholder Letter and on the call, that you that pushed your top priority, external acquisitions and you put down at the bottom as number six, "repurchasing interest held by others in your assets at discounts-to-value", which is something you've done a fair amount over the past year or two. Is that reflective on where you think values are now in your assets, as far as where they're trading? Or is it just something you that you see less opportunity in?

BRUCE FLATT: Yes, we have those six priorities and we ordered them that way to sort of give people a view on the emphasis we have in the Company. I guess I'd almost take it the reverse. Last year in 2008, – given the markets were in extreme distress, we were not that comfortable going out and making acquisitions; and you couldn't do things in the capital market. But there were a number of opportunities presented by partners of ours, whether it was in the public or private, that just had a different view of value, and therefore, we supported our companies or bought out partners or when people wanted to sell assets to us, we bought them from them. And those just came to us. Those are less, I'd say, available today, and also, it's just there isn't the distress out there for people doing that. And in addition, the external side of acquisitions is now possible where it really wasn't possible 12 months ago. I would say that is really the main reason for it.

MARK ROTHSCHILD: Okay. And lastly, you put something in the Shareholder Letter about currency and said that "you're considering hedging some of your investments back into US dollars." Is this something that you're likely to do doing in a material way in the near-term?

BRUCE FLATT: Mark, we'll just to back up to make sure everyone's clear. We have our equity base or our intrinsic value of the Company – approximately 50% in US dollars and 50% in foreign currencies to the US dollar. So, over the last while, we benefited substantially as all those foreign investments have gone up in value, vis-à-vis the US dollar. Our view generally, is that we should match currencies and we should match interest rates and we should match different things within the Company. Right now, we're obviously unhedged to the point of 50% of our assets. Sometimes you have to do that naturally in your businesses and we will probably always will be but given the strong increase in the US dollar. I guess we just view that at some point in time, it may be worth hedging some of that out and, I would call it just locking in some of our gains that we've made the past 12 months on those foreign investments. We probably would never go to 100% hedged, but it could be half of that value at some point in time, I think, if I made a guess as to how much we might hedge.

MARK ROTHSCHILD: So, is this something you're actually working on or is it just some thoughts and discussions that you've had?

BRUCE FLATT: The bottom line is we have an active program of hedging our investments all the time and it changes from month-to-month and, we are still long in most of our current foreign investments but we actively monitor them and from time-to-time change those positions and report on them, obviously, as we come to a quarter end.

MARK ROTHSCHILD: Okay, great. Thanks.

OPERATOR: Your next question comes from Brendan Maiorana of Wells Fargo.

BRENDAN MAIORANA: Thanks, good morning. Bruce, with respect to your comments on the infrastructure asset class, I certainly understand the attractive returns that you're expecting over the next 18 to 24 months on investments. But then longer term, do you think that the return potential, when governments begin monetizing assets and don't do so probably in a distressed way, that the returns can meet or exceed your cost-of-capital requirement?

BRUCE FLATT: Brendan, I have no great insight into how this will all turn out. The only thing I'd say is that we believe that there are a lot of governments around the world – state, provincial and federal governments – that need to get their deficits down.

They own a lot of assets and that those assets likely, a lot of them, will be transferred to private hands and the owners will own those assets. I think in the early stages of that, probably a lot of people will make good money. At some point in time, there will be as always, too much money attracted to an asset class if the returns are too high, and therefore, you will compress the returns. So, as with all good things, too much capital flows to them. So at some point in time, what you've described may happen, which hopefully we will be smart enough to quit buying them at that point in time, but we'll have to see what happens. The good news, I would say, there aren't that many large-scale operating companies that can manage and run these assets. Financial buyers are one thing, operating buyers are a different. As a result I think the capital – and there isn't that much capital – that has flowed to the industry today and the few mistakes that have been made over the last years have stopped some people from investing in the industry. So I think for a while, there will be opportunities. Whether that changes in the future, we'll see.

BRENDAN MAIORANA: That's helpful. Have your investment partners changed their thoughts on timing of when capital ought to be put out, given that the public markets have improved fairly significantly over the past six months and the debt capital markets have shown some improvement as well?

BRUCE FLATT: I'd make the comment on our sovereign funds and institutional partners in general, that just like everyone 12 months ago, they were nervous about putting money out. And I think I said this on the last call, they generally break into different groups with some still trying to sort out their situations but many that are now putting capital out significantly. I think they break into different camps. There's no doubt all of them are more comfortable with putting money out today than they were 12 months ago and that gets better month-by-month.

In particular, most of the institutions that were constrained because their equity portfolios went down and their alternative allocations therefore, became a greater percentage of the whole with , "the illiquid portion was a greater portion of the whole". Now that equities recovered, that's been a very positive thing to investing into the illiquid asset classes like infrastructure or real estate. That's allowed them to start investing again.

BRENDAN MAIORANA: Ok, and you guys raised a fair amount of capital or got a fair amount of commitments during the quarter but your base management fees remained constant at the $165 million annual number. Is that suggesting you're not getting commitment fees on the capital that's been raised?

BRIAN LAWSON: We will be getting commitment fees on them, Brendan – but in some cases, and this has been a bit of a trend in the industry – the commitment fees get collected, I'll say on a back-end basis once an investment is actually made. For example you may have noticed in our retail fund, we had a catch-up fee there as we called the balance of the capital in that fund. We earned the commitment fee that accrued to us over the previous couple of years and you've got a similar paradigm with some of the other funds as well. I guess the most direct answer to your question is that a fair chunk of the new capital we're not getting paid a quarterly commitment fee on a cash basis, having said that, as we invest the funds, fees will accrue to us.

BRENDAN MAIORANA: Okay, great. And just lastly, in your cash and financial assets, I notice that you said you'd purchased a lot of high-yield bonds and other distressed debt. Are those investments just for returns on those securities or are you taking those investments to try to get a toe hold position in the underlining assets?

BRIAN LAWSON: I would say it's a bit of both, Brendan. As you would recall from over the years we often will have a position in our financial assets that could have some strategic relevance to it down the road and sometimes it's simply us deploying our capital as effectively as we can. We obviously can't comment on any specific initiatives in that regard. Having said that, we do see opportunities with some of the securities where they reflect an extremely attractive valuation relevant to the underlying assets and we're generally fundamental-value-investors and so those are the type of options we're looking for.

BRENDAN MAIORANA: Sure, okay. Thank you.

OPERATOR: Your next question comes from Andrew Kuske of Credit Suisse.

ANDREW KUSKE: Thank you, good morning. I guess this is a question for Bruce. How do you think about the market as it stands right now in relation to your investment strategies because we've seen a pretty substantial rally in the equity markets over the last six, seven months, credit spreads have compressed dramatically, but when we really look ahead there is a lot of deleveraging that has to happen, in part because banks have increase their Tier 1 ratios and that really translates through a lot of corporates. How do you think about the markets overall and your timing on actually putting capital to work given the fact that you've got a lot of liquidity?

BRUCE FLATT: Andrew, I think you almost said all the things in that question that are important to the decision. I guess our general view is that the capital markets have recovered to a point and whether they keep going up or they just flat line for a while, actually we'd be probably happier just to say flat lined. Even despite that, there are many private organizations, private companies, financial institutions and portfolios of assets owned by people that need deleveraging, and they have no way out. Some people have a way out because they can float a public company if they have proper sponsorship, but there are a lot of these portfolios that just can't do that. We don't believe there is going to be a lack of opportunities. As with all periods of time, it's only which ones you pick and how well do you pick them. I think we believe that the next 24 months in property infrastructure will allow us to find many opportunities to sort through and we just don't have the amount of capital to worry about too few opportunities. There are just many, many opportunities out there that we can look at and we just don't have the people and the time to look at them all. We're not at all worried the opportunities are going away because the capital markets have gone up. If that's the direct question you were asking.

ANDREW KUSKE: So then when you think about the opportunities and just the capital limitations that you have, and that realistically anyone would have on trying to seize those opportunities, how do you think about BAMs model on a go-forward basis of the balance of listed and unlisted funds with third-party capital?

BRUCE FLATT: I would say the following. We're in the business of making a lot of money for whoever we invest for and that includes the shareholders of the Company, the minority investors and public entities that we invest for and the private institutional accounts that we invest for. I guess wherever we can secure that capital, I guess maybe I'd step back and say that we benefit from the fact that we now can access all of those markets and very few people have access to all of those markets. Having access to all of those markets gives us the ability to, when one market is more open than another, access that one. I think partly it will depend on capital market availability as to where we raise money. Secondly, it will be where we can get properly paid for what we offer. I think it will change over time. It will differ from strategy-to-strategy but I don't really have a specific place where we're going. Two years ago, when we spun out Brookfield Infrastructure, we went for a period of time where it just sat there and did nothing and I think we've said that on a number of occasions, to investors on these calls, and our investor meetings, that we didn't know what we would end up with, but we believed it was the right strategy and we would be able to utilize it at some point in time and that opportunity just presented itself. I think it will depend over time.

ANDREW KUSKE: That's helpful. Thank you.

OPERATOR: Your next question comes from Rossa O'Reilly of CIBC World Markets

ROSSA O'REILLY: Thank you very much and good morning. The reference to the liquidity on September 30th of $3.8 billion with $2.8 billion at the parent company and $1 billion in the operating platforms, I wondered how the $625 million deposit or loan from Brookfield Properties to Brookfield Asset Management was treated in the breakdown?

BRIAN LAWSON: Rossa, it's in there but it's basically net, it shows up as corporate but it basically nets out.

ROSSA O'REILLY: It does but when you talk about the operating platforms of $1 billion ...

BRIAN LAWSON: Oh, I see.

ROSSA O'REILLY: ... would you include it in that $1 billion?

BRIAN LAWSON: Yes, it would be.

ROSSA O'REILLY: Okay. Because I guess it's a demand loan from their perspective so that means that excluding that, at the parent company level, there's $2.8 billion in liquidity.

BRIAN LAWSON: That's correct.

ROSSA O'REILLY: Of which I guess $435 million has since been used to invest in Infrastructure.

BRIAN LAWSON: That is correct.

ROSSA O'REILLY: Of the $2.4 billion that's left, what would be a breakdown by type of liquidity, cash, securities, unused lines of credit?

BRIAN LAWSON: About 50/50.

ROSSA O'REILLY: 50% would be cash and securities?

BRIAN LAWSON: Yes.

ROSSA O'REILLY: And lines of credit.

BRIAN LAWSON: Correct.

ROSSA O'REILLY: Of the cash and securities, what kinds of securities would be the bulk of that?

BRIAN LAWSON: It would be very similar to what we have in the supplemental. It's a mix of corporate bonds, government bonds, some of the high-yield and distress debt investments we referenced would be in there and then there is cash as well.

ROSSA O'REILLY: But I guess because you call it liquidity, it truly is highly liquid.

BRIAN LAWSON: They're all securities we can monetize and in very quick order. Yes. But obviously, we're just going to sit around with a $1billion of cash and not try to invest it as effectively as you can in terms of generating in returns.

ROSSA O'REILLY: Yes, and is there a component of that should that should be viewed as kind of a reserve against the unexpected?

BRIAN LAWSON: Well, I think I'd view that more in context of our overall liquidity and I would say yes, there is a certain level that we will take our liquidity down to in the interest of pursuing opportunities. If you look at our liquidity over the years, today it obviously sits at a very high level. In the past, it's been down around a billion, billion and a half level. I suppose you could take some guidance for lack of a better word from that. We run our business in such a way that we can deal with the unexpected so you can expect us to always be mindful of that.

ROSSA O'REILLY: Well, thank you very much.

BRIAN LAWSON: Thank you.

OPERATOR: Your next question comes from Ari Black of Thomas Weisel Partners

ARI BLACK: Hi guys. I wanted to touch on the third-party management fees of $125 million and just get a sense of how much of the third-party commitments, the $37 billion is actually invested earning that $125 million. Just trying to get a sense of if you invest the rest of the commitments what the scalability could be like for those third-party management fees?

BRIAN LAWSON: Ok, so I'd say there's a couple of pieces of information we can give you in that regard. First of all, you have to break it down into the various types of assets that we have under management. So one, a good chunk of the $37 billion of capital commitments from third parties, there is around $23 billion of that is our public securities fixed income, equity securities under management. That's obviously all fully invested and that tends to be a somewhat lower margin in terms of the lower coupon that is paid in fee – particularly the fixed income side, compared to the more management intensive strategies such as our opportunistic and private equity type investments. If you then turn and look at those, what you would see is of the $14 billion of committed capital that – and allocations that we showed on the books at the end of the quarter, roughly half of that was actually invested.

ARI BLACK: Is it fair to assume that basically that the management fees on that could double if it's invested into the same fee structure?

BRIAN LAWSON: Yes. That would be a reasonable expectation.

ARI BLACK: That's helpful. And just based on your comments, the opening comments, that it will take some time to restructure Prime Infrastructure, how involved is management's time in that and if you see another acquisition come knocking on your door, will have the ability to actually pursue an acquisition?

BRUCE FLATT: I would make the comment that we have a large organization with a lot of people and, therefore, we can mobilize resources to do a lot of different things. Having said that, there are limits to how much we should take on prudently both financially and operationally. That not to say that we're not looking at other things and won't do other things, it's just that we have to be prudent with the resources both – on all of those things. I think if you told our infrastructure group they had to do another acquisition tomorrow morning, they wouldn't be too happy, but I am sure in a short period of time, we should be able to be involved in some other things. The bottom line is we just have to be prudent with our resources and I think we will be able to do a number and there are a number of things we're looking at.

ARI BLACK: Is there a ballpark figure you can give out? Just on preliminary estimates, are we talking like six months from now or less?

BRUCE FLATT: It could be six weeks or it could be six months. Who knows? It all depends on how well things go and what we buy, how much in resources – capital resources we generate from other places. I would say there are a lot of factors. I generally wouldn't say we're resource constrained. Therefore, I think anything that's really great we will be able to take advantage of. but I just give those caveats to doing too many things all at once

ARI BLACK: Great. Turning to the Timberland side, do you have an expectation on when you expect lumber prices could turn and when you would harvest the trees more aggressively?

BRUCE FLATT: I think it's highly dependent upon housing. A lot of this goes into high-end housing uses, at 400,000 homes being built in the United States, that doesn't accord to high prices with an average of 1.6 million new home sales on average. So I would say the prediction of your view of when housing starts to come back, and remember, it doesn't have to get to 1.6 for prices to go up. It just has to keep getting better from 400, which, inevitably, it's starting to do. But I think it's dependent upon that, and that's where you'll see higher pricing. Best guess is that you'll see housing starting to come back over the next 18 to 24 months. And I think you'll see timber and that industry starting to reprice upwards over that period.

ARI BLACK: Great, thank you.

Operator: Next question comes from Cherilyn Radbourne of Scotia Capital.

CHERILYN RADBOURNE: Thanks very much and good morning. I wondered if you could just comment, geographically, as it relates to opportunities, sort of across the US, the UK and Australia and the extent to which you expect opportunities to arise in each of the geographies broadly, whether it's property or infrastructure? And the extent to which you think you face competition from other pools of capital. In other words, is there a market where you think your competitive position is particularly advantaged?

BRUCE FLATT: I would say the following. There always seems to be a lot of competition in the United States. There is just a lot of capital groups in the United States so we always face the most competition in the United States, just as a general comment. As a second general comment, I would note or I would say that we find that there were a lot of property and infrastructures entities floated or put together in the Australian markets. Therefore, there are a number of opportunities: A) the one we're involved in and, B) there are a number of others that were out there that as that's where the industry started and, therefore, there is a lot of opportunities there in the capital markets. The assets are not necessarily all in Australia, but that's where they're listed. So I'd say there's a lot more opportunities there.

All three of the markets you have mentioned, we have significant operating platforms and people, and therefore, look at many transactions. The US and the UK, I would say, favor opportunities because there is distress there than other places. I guess I'd say it comes to financial distress and operational distress. There's more operational distress in the UK and the United States. There is financial distress in all three and we try not to state where we will invest or what we will invest in we like to choose the best opportunities and allocate our capital there. I'm not sure if that quite answers your question, but it's an attempt.

CHERILYN RADBOURNE: Yes, that's useful color. Just thinking beyond the $3.8 billion of liquidity across the Group, you did monetize some power assets during the quarter. Are there other pools of mature assets left in the portfolio that could be monetized as another source of capital for opportunities?

BRUCE FLATT: I'd make two comments, and then Brian will make a comment. $3.8 billion is our balance sheet liquidity, compared with – there is a much higher number, much more significant number which would be the capital that we have to invest ourselves and our partners; it's more than double that amount. I would say to your comment, or to your question about more mature assets, there are clearly other groups of assets within the Company that we could monetize, should we want to reallocate capital other places. A number of those assets are more mature and have kept their value in this environment and I think they'd be great assets for institutions or others to own.

In a 50 basis point or a 1% interest rate environment, some of the assets we own are very attractive to retail and institutional investors. It's all about capital allocation but I guess we believe that there is no reason to put too much cash on the balance sheet; we actually have excess amounts today. But as we find other opportunities or in the process of doing that, we think there are a lot of other pools of assets that we could monetize and I guess arbitrage, taking more risks but earning higher returns and going forward if we can do that.

CHERILYN RADBOURNE: Okay, thank you. That's all my questions.

OPERATOR: The next question comes from Michael Goldberg from Desjardins Securities.

MICHAEL GOLDBERG: Thank you. I have a couple of questions. First of all, on page 29 of your supplementary, I see that you have included the commercial property consortium in the opportunity and private equity component of your assets under management, under third-party commitments. Is there anything we can infer from where you put this about the fees you can foresee potentially earning on this commitment?

BRIAN LAWSON: Michael, its Brian. It's there for two reasons. First and foremost is, as you know, it's a turnaround opportunity fund and, therefore, that capital is going to be targeted more towards those kinds of opportunities which lend themselves to more to opportunistic and private equity type returns. As to the actual fee composition, we're not really trying to give you, or really aren't in a position to provide, publicly, much color around the actual quantum of the fees there. They are private arrangements between ourselves and our counter parties.

MICHAEL GOLDBERG: But they would be more comparable to the other opportunity and private equity-type funds than let's say your core and value-added funds. Is that fair to say?

BRIAN LAWSON: We think the economics would trend more to that. Yes.

MICHAEL GOLDBERG: Okay. My other question is in a different direction. You potentially have growing exposure to long-term assets in Australia and we've talked in the past about development of a long-term financing market in Australia, recently. Can you update whether there has been any progress in developing this financing market and what do you think has to happen for this market to develop and how long do you think that might take?

BRIAN LAWSON: I think, Michael, there have been a number of important initiatives that have been achieved by us and by others recently. One of note is we did do a small but important retail bond offering there; it was a first mortgage or second, sorry, on a high-quality property and that was well received and so we'll be doing others like that. At the end of the day, what we'll need to see more of is institutional participation in a traditional long-term financing and mortgage market. And while that will take some time, we do expect that it will develop as we've seen it develop in other markets. I would say, the shorter answer is, we've made some progress. The retail offerings in that regard are an important step but we will need to be spending more time developing that more, broader market.

MICHAEL GOLDBERG: Do you think this is a medium-term development for that market to develop or is it a very long-term goal?

BRUCE FLATT: Michael, its Bruce. I would say it's maybe just stepping back. The good news is the capital markets in Australia, like everywhere, have recovered significantly and have loosened up a lot. So, there's a lot going on and things are getting done again in the country which, is very positive for what we have. Part of that is driven off the fact that Australia's doing extremely well today. And given its resource base, we think investing there is one of the best places to invest, given all of the factors. So, if you take all of that and the economy, and their one of the places in the world that are actually pushing rates up a little bit, because it's doing extremely well, I guess that bodes for the capital markets coming back quicker than others, or the credit markets. That credit market that's coming back is just a banking market. What we're trying to work with, I'd say to answer your specific question, it's a medium-term solution, it's not a one-month or six-month solution to try to change the capital market funding for real estate or infrastructure assets. We think it will happen but we just have to work with some of the institutions there and bring some of the ideas that we have from other places.

MICHAEL GOLDBERG: Thanks, Bruce.

OPERATOR: Next question comes from Neil Downey of RBC Capital Markets.

NEIL DOWNEY: Hi, good morning. I will be brief. Brian, can you comment on the accounting convention for your 40% investment, ultimately, in Prime Infrastructure from both a balance sheet and cash flow perspective

Brian Lawson: Sure, Neil. I think our expectation, and frankly, we're still working through some of the things based on what the final structure is going to look like. We would expect it will be equity counted. So if we own a 40% interest in it and it is in Brookfield Infrastructure Partners, as I think you're aware, we consolidate Brookfield Infrastructure Partners with our operations and so you would see that 40% interest in our MD&A. As it flows through to us, we would treat it as an equity accounting investment. As you know, what we try to achieve with our MD&A is to give investors the ability to understand not just how much cash we actually have, say technically delivered to us in any particular quarter, but how much cash accrues to us based on our underlying interest in the business. So that's what you would expect to see in that regard.

NEIL DOWNEY: Okay. And those statements effectively hold equally true under Canadian GAAP as reported today, as hypothetically reported today, because the deal's obviously not closed.

BRIAN LAWSON: Correct.

NEIL DOWNEY: Versus in 2010? As you report under IFRS?

BRIAN LAWSON: That is correct.

NEIL DOWNEY: Okay, thank you.

OPERATOR: This concludes the time allotted for questions. I will turn the call back over to Mr Harding.

ROBERT HARDING: Thank you very much. Thank you, everyone, for joining us today. We look forward to hearing from you again and appreciate your comments and questions. Have a great weekend. Bye for now.

Operator: Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.